

1
HEALTH SERVICES AND DEVELOPMENT AGENCY MEETING
JULY 24, 2013
APPLICATION SUMMARY

NAME OF PROJECT: Molecular Imaging Alliance

PROJECT NUMBER: CN1304-014

ADDRESS: 701 N. State of Franklin Road, Suite 1
Johnson City (Washington County), TN 36404

LEGAL OWNER: LifeScan Tennessee, LLC
701 N. State of Franklin Road, Suite 1
Johnson City (Washington County), TN 36404

OPERATING ENTITY: Not Applicable

CONTACT PERSON: John Welborn
(615) 665-2022

DATE FILED: April 15, 2013

PROJECT COST: \$495,339.00

FINANCING: Commercial Loan

PURPOSE FOR FILING: Relocation of an Outpatient Diagnostic Center with
positron emission tomography (PET) services

DESCRIPTION:

Molecular Imaging Alliance is seeking approval for the relocation of its Outpatient Diagnostic Center (ODC) and positron emission tomography (PET) services from 830 Suncrest Drive, Suite 1, Gray (Washington County), TN to the "701 Building" State of Franklin Road, Suite 1, Johnson City (Washington County), TN, a distance of 10.6 miles. The applicant states the project will not change the project service area or the facility's scope of services.

SERVICE SPECIFIC CRITERIA AND STANDARD REVIEW**CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT OF HEALTH CARE INSTITUTIONS**

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

This criterion does not apply.

2. For relocation or replacement of an existing licensed health care institution:

- a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.

This criterion does not apply. The applicant does not own the space now occupied by the ODC.

- b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

The applicant performed 342 PET scans in 2010, 514 in 2011 and 668 in 2012 and projects volume will grow to 889 PET scans by the second year of the project, 2015. The current State Health Plan PET Certificate of Need Standards and Criteria states the optimal efficiency for a stationary PET unit is 80 percent of total capacity, or 1,600 procedures per year. The applicant is currently not meeting and is not projecting to meet this standard.

It appears that the applicant does not meet this criterion.

3. For renovation or expansions of an existing licensed health care institution:

- a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.

This criterion does not apply.

- b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

This criterion does not apply.

MOLECULAR IMAGING ALLIANCE

CN1304-014

July 24, 2013

PAGE 2

SUMMARY:

Molecular Imaging Alliance, a licensed Outpatient Diagnostic Center (ODC) with cardiac PET services, is proposing to relocate 10.6 miles to a smaller office in the same county (Washington) and downsize from two leased PET cardiac systems to one cardiac PET system. The applicant states patient demand for its cardiac studies can be met with one PET system. The applicant indicates the best place for the ODC to move is close to Johnson City Medical Center with its growing number of medical specialists who want to refer to cardiac diagnostic service in close proximity.

The hours of operation for the ODC are weekdays 7:00 am to 5:00 pm. If approved, the applicant states the new location can be open for patient service by January 1, 2014. The applicant states the proposed site will be located adjacent to its largest referral source, Karing Hearts Cardiology, PLLC

The ODC owned by Lifescan, LLC was originally approved during the April 25, 2007 agency meeting to establish an ODC and initiate PET services with one PET system. The second PET system was acquired by LifeScan, LLC in April 2008 at a cost of \$150,000. The second PET system acquired by LifeScan did not require CON approval since it was under the \$2,000,000 medical equipment threshold requirement.

The PET scanner being relocated is a GE cardiac PET scanner system that includes the camera, workstation, software, water chiller unit, lead door, in-lab furniture, and miscellaneous items on the lab and control room. The PET scanner is valued at approximately \$350,000 with an expected useful life of ten years. The applicant will be leasing the PET scanner system from LifeScan Leasing, LLC at a cost of \$12,000 per month.

LifeScan Leasing, LLC intends to sell the second cardiac PET system that has been in operation at the applicant's current site in Gray, TN to Wellmont Cardiology Services, Inc. Wellmont Cardiology Services, Inc. located at 2050 Meadowview Parkway, Kingsport (Sullivan County) has filed a companion application (CN1304-013) to also be heard at the July 24, 2013 Agency meeting

MOLECULAR IMAGING ALLIANCE

CN1304-014

July 24, 2013

PAGE 3

for the initiation of the acquired cardiac PET system purchased from LifeScan Leasing, LLC. There are key differences in the two applications, Wellmont Cardiology Services, Inc. (CN1304-013) and Molecular Imaging Alliance (CN1304-014): 1) Wellmont Cardiology Services, Inc. (a physician practice) will be addressing the Outpatient Diagnostic Center and PET Criteria and Standards since it will be establishing a new ODC (if necessary), or it will be a physician practice and initiating PET services, and 2) Molecular Imaging Alliance will be addressing Construction, Renovation, Expansion, and Replacement of Health Care Institutions criteria since need has already been established and the site is relocating within the same county with no change in ownership.

Molecular Imaging Alliance, LLC is owned by LifeScan Tennessee, LLC. The Tennessee Secretary of State web-site indicates LifeScan Tennessee, LLC is an active entity formed in January 2007. The applicant notes the entity is wholly owned by Rob Gregory of Johnson City, TN as of the end of 2012. The applicant reports the LLC owns no other interest in any other health facility and that ownership will not change as a result of the proposed relocation.

The applicant states there are two reasons for changing the location of the ODC:

- The applicant seeks to improve its physical accessibility to referring physicians, who must be at the ODC for medical supervision during their patients' cardiac PET scans. In addition, Johnson City Medical Center is less than one mile away.
- The applicant needs to lease a smaller space after it was determined one cardiac PET unit will be sufficient for its referrals for the foreseeable future.

If approved, the applicant will lease the proposed 2,414 square foot facility from Karing Hearts Cardiology, PLLC located at 701 N. State of Franklin Road, Suite 2 Johnson City (Washington County), TN at a rate of \$2,265 per month for 5 years.

The ODC will contain a cardiac PET camera room with an adjoining control room, a nuclear medicine "hot lab", a patient prep/intake bathroom, a patient/visitor bathroom, a reception and waiting area with administrative space, and space for future expansion.

One feature of the current site located in Gray, TN is that LifeScan obtains the radiopharmaceutical agents needed for the PET/CT service (N-13 Ammonia for cardiac patients) from Precision Nuclear, LLC which operates a cyclotron on-site

MOLECULAR IMAGING ALLIANCE

CN1304-014

July 24, 2013

PAGE 4

in the office building. A letter dated April 15, 2013 from Precision Nuclear, LLC states the applicant will continue to be supplied with N-13 Ammonia for cardiac PET perfusion at the proposed Johnson City location. In the supplemental response, the applicant projects the cost of the pharmaceutical agent N-13 will total \$258,560 or \$320.00 per patient. The stress agent Lexiscan is projected to cost \$56,560 or \$70.00 per dose. The applicant reports to have the vendor's commitment to deliver the needed N-13 Ammonia dosages to the Johnson City site for the same price as they are delivered to current location in Gray, TN. The applicant states cyclotrons that produce N-13 are prohibitively expensive to acquire and staff and has no long-term plans to include a cyclotron on-site at the proposed location.

The applicant states that the primary service area (PSA) includes five (5) Tennessee Counties, including Carter, Greene, Sullivan, Unicoi and Washington Counties. Patients residing in Carter and Washington Counties are expected to account for the majority of projected utilization in Year One and Year Two of operations (*approximately 67% of total PET procedures*). According to projections based upon the U.S. census 2010 data, the five county service area population is estimated to be 432,438 in 2013 and projected to grow to 444,344 in 2017, a 2.8% increase. The total population in Tennessee overall is also expected to grow 3.7% during this time frame. HSDA identifies 74,174 TennCare enrollees in the service area which is equivalent to 17.2% of the population. The range of TennCare enrollees as a % of total population by county is 14.8% in Washington County and 19.9% in Unicoi County. The TennCare enrollees as % of total population for Tennessee overall in June 2012 was 18.6%.

If both of the companion applications are approved, Wellmont Cardiology Services, Inc. and Molecular Imaging Alliance will share Green, Sullivan and Washington counties in their primary service area. In the supplemental response, the applicant states there is a good relationship with Wellmont Cardiology Services and neither sees the other's proposed service area as overlapping and competitive within the near future. The applicant does not expect to lose any PET utilization to Wellmont Cardiology Services, Inc. The chart below reflects the primary service area and the 2012 existing practice patient origin of both providers.

**Primary Service Area and Patient Origin for Proposed Projects
Molecular Imaging Alliance and Wellmont Cardiology Services, Inc.**

| | Carter | Greene | Hawkins | Sullivan | Unicoi | Washington | Other TN Counties/ States | Virginia |
|-----------------------------------------------------------------|----------|----------|----------|----------|----------|------------|---------------------------------|----------|
| Molecular Imaging Alliance (CN1304- 014) | X | X | | X | X | X | | |
| Patient Origin | 17.8% | 7.8% | | 6.0% | 8.1% | 49.4% | 10.9% | 0% |
| | | | | | | | | |
| Wellmont Cardiology Services, Inc. (CN1304- 013) | | X | X | X | | X | | |
| Patient Origin | | 7.3% | 8.0% | 26.8% | | 8.4% | 15.8% | 33.7% |

Source: CN1304-013 and CN1304-014

PET equipment utilization recently reported by the HSDA for PET units in the primary service area is shown below:

PET Utilization in the 5-County Tennessee PSA

| | | | | 2010 | 2011 | 2012 | '10-'12 | 2012 |
|---------------|-----------------------------|----------------|------------------------|--------------|--------------|--------------|--------------|---------------|
| County | Provider | Fixed Units | Mobile units (days/wk) | Procs. | Procs. | Procs. | % change | % of Standard |
| Greene | Laughlin Memorial | None | 1 (2 days/wk) | 456 | 430 | 351 | -23% | 54.8% |
| Sullivan | Bristol Reg. Med. Ctr. | None | 1 (2 days/wk) | 435 | 466 | 460 | +5.7% | 71.9% |
| Sullivan | Holston Valley Medical Ctr. | None | 1 (3 days/wk) | 1,381 | 1,501 | 1,677 | +21.4% | 175% |
| Sullivan | Indian Path Medical Ctr. | None | 1 (1 day/wk) | 154 | 133 | 143 | -6.5% | 44.7% |
| Washington | JCMC | 1 | None | 1,769 | 1,542 | 1,234 | -30.2% | 77% |
| Washington | LifeScan Tennessee, LLC | 2 | None | 342 | 514 | 623 | +82% | 19.4% |
| Totals | | 3 fixed | 4 mobile | 4,537 | 4,586 | 4,488 | -1.1% | 61% |

The State Health Plan Certificate of Need PET Standards and Criteria indicate "applicants proposing a new stationary PET unit should project a minimum of at least 1,000 PET procedures in the first year of service, building to 1,600 procedures per year by the second year of service and every year thereafter."

Of the six PET providers, only one reported the minimum annual treatment utilization as specified by the State Health Plan Standard of 1,600 procedures per unit annually after two years of being in service. Utilization of PET services appears to be trending slightly downward for the service area from 4,537 procedures in 2010 to 4,488 procedures in 2012, or -1.1%.

Historic and projected utilization for the applicant's PET/CT scanner are provided below:

Molecular Imaging Alliance Historical and Projected PET Utilization

| | 2010 | 2011 | 2012 | (1 st Year) 2014 | (2 nd year) 2015 |
|----------------|------|------|------|--------------------------------|--------------------------------|
| PET Procedures | 342 | 514 | *623 | 808 | 889 |

Source: Molecular Imaging Alliance, CN1304-014

*Source: HSDA Medical Equipment Registry

The Projected Data Chart provided in the application for the Molecular Imaging Alliance projects net operating gains after capital expenditures of \$202,597 during the first year of operation and \$208,410 during the second year of operation. LifeScan expects to realize \$2,531,646.00 in total gross revenue on 808 PET procedures in Year One of the project increasing to 889 PET procedures and \$2,646,176.00 in gross revenue (\$2,977 per procedure) in the second year of operation. After contractual adjustments, charity and bad debt (*total average annual deduction of approximately \$1,392 per procedure*), annual net operating revenue averages approximately \$1,407,671.00 per year or \$830.00 per PET procedure. Staffing for the PET/CT in Year Two will consist of 1.0 full-time Clinical Director, 1.0 full-time RN and a 1.0 full-time Nuclear Med Tech.

The proposed gross charge per procedure in Year Two is \$2,977.00. According to the 2012 HSDA Medical Equipment Registry, the gross charge is below the 1st quartile gross charge per procedure of \$3,667.96. The chart below reflects the 2012 1st quartile, median and 3rd quartile gross charge per procedure for all statewide PET providers.

Gross Charges per Procedure/Treatment By Quartiles 2012

| Equipment Type | 1st Quartile | Median | 3rd Quartile |
|----------------|--------------|------------|--------------|
| PET Scanner | \$3,667.96 | \$4,497.71 | \$6,304.71 |

Source: Medical Equipment Registry - 6/28/2013

Molecular Imaging Alliance is contracted with BlueCare, United Community Healthcare Plan, TennCare Select and Medicare. In addition, the applicant is contracted with the Virginia Medicaid Plan. It is anticipated that during the first operational year following the project's completion, projected Medicare revenues are anticipated to be \$1,392,405 (55% of total gross revenues), while TennCare/Medicaid revenues are anticipated to be \$101,266 (4% of the project's gross revenues). In addition, Molecular Imaging Alliance has budgeted \$75,949 (3% of the project's gross revenues) for charity care within the first year of the project.

MOLECULAR IMAGING ALLIANCE

CN1304-014

July 24, 2013

PAGE 8

Approximately 847 square feet of the ODC's 4,214 SF of space will be renovated. Renovation will include radiation shielding installation in the walls of the PET camera room, nuclear medicine room, and patient prep/uptake bathroom. The facility renovation/build-out is estimated at \$150,000 or approximately \$177 per square foot. The projected cost per square foot is between the median renovated construction cost of \$122.15/sq. ft. and the 3rd quartile cost of \$196.46/sq. ft. for renovation projects between 2008 and 2010. In a letter dated April 12, 2013, the Architectural Firm Cain Rash West states the proposed facility will meet current applicable building codes as well as guidelines for Design and Construction of Health Care Facilities.

In the supplemental response the applicant stated there are no audited financial statements available for any period for the applicant. The applicant indicated the prior owner of LifeScan ODC did not conduct audits of each subsidiary's financial statements.

Review of the LifeScan Tennessee, LLC unaudited financial statements for the period ending December 31, 2012 reflected a net loss of (\$843,162.38) or approximately (74.20%) of total revenue in the amount of 1,136,301.92.00 for the 12-month period ending December 31, 2012. The largest expense for LifeScan, LLC was Lease Expense for Fixed Equipment in the amount of \$1,190,004.00 which represented 67% of all expenses totaling \$1,766,833.05. Review of the LifeScan Tennessee, LLC financial statements in the supplemental response from January through March 2013 reflected net income of \$1,720.71 or approximately .68% of total income in the amount of \$251,554.14 for the three-month period.

The total estimated project cost is \$495,339.00 which includes \$290,839 for the Facility Fair Market Value; \$157,500 for construction and contingency costs; \$11,000 for architectural and engineering fees, \$30,000 for Legal, Administrative and Consultant Fees, \$3,000 for moving and miscellaneous expenses and \$3,000 for CON filing fees.

The proposed project will be funded through a commercial loan. Mountain Commerce Bank located in Johnson City, Tennessee expects to be able to provide both the construction and permanent financing for the proposed project. A letter dated March 8, 2013 from Mountain Commerce Bank's First Vice President Kenneth N. Raff II noted the availability of a 10-year term loan of \$204,500.00 at a 5% interest rate to cover the capital cost of the project.

If approved, the applicant will seek a transfer agreement with MSHA's Johnson City Medical Center, which the applicant states is less than one mile away along the same highway.

MOLECULAR IMAGING ALLIANCE

CN1304-014

July 24, 2013

PAGE 9

The applicant has submitted the required information on corporate documentation, lease, and manufacturer's quote including maintenance contract, and FDA approval. Staff will have a copy of these documents available for member reference at the meeting. Copies are also available for review at the Health Services and Development Agency's office.

Should the Agency vote to approve this project, the CON would expire in two years.

CERTIFICATE OF NEED INFORMATION FOR THE APPLICANT:

There are no other Letters of Intent, pending or denied applications, or outstanding Certificates of Need for this applicant.

CERTIFICATE OF NEED INFORMATION FOR OTHER SERVICE AREA FACILITIES:

There are no other Letters of Intent, denied applications, or outstanding Certificates of Need for other health care organizations proposing this type of service.

Pending Applications

Wellmont Cardiology Services, CN1304-013, has a pending application that will be heard at the July 24, 2013 Agency meeting for the initiation of cardiac PET services by acquiring an existing PET system located in Gray, Tennessee and relocating the unit to 2050 Meadowview Parkway, Kingsport (Sullivan County), TN 37660. The applicant will establish an outpatient diagnostic center (ODC) if required by the Tennessee Department of Health. The estimated project cost is \$1,074,000.00.

PLEASE REFER TO THE REPORT BY THE DEPARTMENT OF HEALTH, DIVISION OF HEALTH STATISTICS, FOR A DETAILED ANALYSIS OF THE STATUTORY CRITERIA OF NEED, ECONOMIC FEASIBILITY, AND CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTH CARE IN THE AREA FOR THIS PROJECT. THAT REPORT IS ATTACHED TO THIS SUMMARY IMMEDIATELY FOLLOWING THE COLOR DIVIDER PAGE.

PME
(07/08/13)

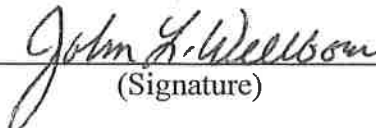
LETTER OF INTENT

LETTER OF INTENT -- HEALTH SERVICES & DEVELOPMENT AGENCY

The Publication of Intent is to be published in the Johnson City Press, which is a newspaper of general circulation in Washington County, Tennessee, on or before Wednesday April 10, 2013, for one day. 2013 APR 8 PM 4 11

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. Sections 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Molecular Imaging Alliance (an Outpatient Diagnostic Center with cardiac PET scanning), owned and managed by LifeScan Tennessee, LLC (a limited liability company), intends to file an application for a Certificate of Need to change its location within Washington County, from 830 Suncrest Drive, Suite 1, Gray, TN 37615 to the "701 Building" at 701 State of Franklin Road, Suite 1, Johnson City, TN 36404, at a capital cost estimated at \$500,000. The applicant is licensed by the Board for Licensing Health Care Facilities, Tennessee Department of Health, as an Outpatient Diagnostic Center. The project is a change of site for an existing facility and service. It will not add or discontinue any significant health service at the ODC; it does not include any type of major medical equipment other than an existing cardiac PET system; it does not affect any inpatient bed complements.

The anticipated date of filing the application is on or before April 15, 2013. The contact person for the project is John Wellborn, who may be reached at Development Support Group, 4219 Hillsboro Road, Suite 203, Nashville, TN 37215; (615) 665-2022.

| | | |
|-------------------------------------------------------------------------------------|--------|-------------------|
|  | 4-8-13 | jwdsg@comcast.net |
| (Signature) | (Date) | (E-mail Address) |

Copy Application

Molecular Imaging Alliance

CN1304-014

ORIGINAL DOCUMENT PRINTED ON CHEMICAL REACTIVE PAPER WITH MICROPRINTED BORDER

LIFESCAN TENNESSEE, LLC
DBA MOLECULAR IMAGING ALLIANCE
830 SUNCREST DR. SUITE 2
GRAY, TN 37615FIFTH THIRD BANK
LOUISVILLE, KENTUCKY

3049

21-234/830

04/10/2013

PAY TO THE
ORDER OF

Health Services and Development Agency

Three Thousand and 00/100 *****

\$ **3,000.00

Health Services and Development Agency

DOLLARS

MEMO

"003049" :083002342: 7777772296"

STATE OF TENNESSEE
Health Services and Dev Agency
Office 31607001
4/16/2013 9:10 AMCashier: annlr0811001
Batch #: 473575
Trans #: 3
Workstation: AF0719WP45

=====

CON Filing Fees

| | | |
|----------------------|----------|------------|
| Receipt #: | 09755081 | |
| HA01 CON Filing Fees | | \$3,000.00 |
| Payment Total: | | \$3,000.00 |
| ===== | | |
| Transaction Total: | | \$3,000.00 |
| Check | | \$3,000.00 |

Thank you for your payment.
Have a nice day!

CN1304-014

SECURE
MICROPRINT
TECHNOLOGY

Security Features Included



Details on back

2013 APR 15 PM 3 02

**MOLECULAR IMAGING
ALLIANCE**

**CERTIFICATE OF NEED APPLICATION
TO RELOCATE AN EXISTING
OUTPATIENT DIAGNOSTIC CENTER
AND CARDIAC PET SCANNER
FROM
GRAY TO JOHNSON CITY
(WITHIN WASHINGTON COUNTY)**

Filed April 2013

PART A**1. Name of Facility, Agency, or Institution**

| | | |
|----------------------------------------|---------------|-----------------|
| Molecular Imaging Alliance | | |
| <i>Name</i> | | |
| 701 N. State of Franklin Road, Suite 1 | Washington | |
| <i>Street or Route</i> | <i>County</i> | |
| Johnson City | TN | 36404 |
| <i>City</i> | <i>State</i> | <i>Zip Code</i> |

2. Contact Person Available for Responses to Questions

| | | | |
|--------------------------------|---------------------|-----------------------|-----------------|
| John Wellborn | | Consultant | |
| <i>Name</i> | | <i>Title</i> | |
| Development Support Group | | jwdsg@comcast.net | |
| <i>Company Name</i> | | <i>E-Mail Address</i> | |
| 4219 Hillsboro Road, Suite 203 | Nashville | TN | 37215 |
| <i>Street or Route</i> | <i>City</i> | <i>State</i> | <i>Zip Code</i> |
| CON Consultant | 615-665-2022 | 615-665-2042 | |
| <i>Association With Owner</i> | <i>Phone Number</i> | <i>Fax Number</i> | |

3. Owner of the Facility, Agency, or Institution

| | | |
|-------------------------|--------------|-----------------|
| LifeScan Tennessee, LLC | | |
| <i>Name</i> | | |
| Same as in #1 above | | |
| <i>Street or Route</i> | | <i>County</i> |
| | | |
| <i>City</i> | <i>State</i> | <i>Zip Code</i> |

4. Type of Ownership or Control (Check One)

| | | | |
|---------------------------------|--|------------------------------------------------------|---|
| A. Sole Proprietorship | | F. Government (State of TN or Political Subdivision) | |
| B. Partnership | | G. Joint Venture | |
| C. Limited Partnership | | H. Limited Liability Company | x |
| D. Corporation (For-Profit) | | I. Other (Specify): | |
| E. Corporation (Not-for-Profit) | | | |

PUT ALL ATTACHMENTS AT THE BACK OF THE APPLICATION IN ORDER AND
REFERENCE THE APPLICABLE ITEM NUMBER ON ALL ATTACHMENTS

5. Name of Management/Operating Entity (If Applicable) **NA**

| | | |
|------------------------|--------------|-----------------|
| | | |
| <i>Name</i> | | |
| | | |
| <i>Street or Route</i> | | <i>County</i> |
| | | |
| <i>City</i> | <i>State</i> | <i>Zip Code</i> |

6. Legal Interest in the Site of the Institution (Check One)

| | | | |
|-----------------------|---|---------------------|--|
| A. Ownership | | D. Option to Lease | |
| B. Option to Purchase | | E. Other (Specify): | |
| C. Lease of 5 Years | x | | |

7. Type of Institution (Check as appropriate—more than one may apply)

| | | | |
|--------------------------------------------------------------------|--|-----------------------------------------|---|
| A. Hospital (Specify): General | | I. Nursing Home | |
| B. Ambulatory Surgical Treatment Center (ASTC) Multi-Specialty | | J. Outpatient Diagnostic Center | x |
| C. ASTC, Single Specialty | | K. Recuperation Center | |
| D. Home Health Agency | | L. Rehabilitation Center | |
| E. Hospice | | M. Residential Hospice | |
| F. Mental Health Hospital | | N. Non-Residential Methadone | |
| G. Mental Health Residential Facility | | O. Birthing Center | |
| H. Mental Retardation Institutional Habilitation Facility (ICF/MR) | | P. Other Outpatient Facility (Specify): | |
| | | Q. Other (Specify): | |

8. Purpose of Review (Check as appropriate—more than one may apply)

| | | | |
|------------------------------------------------------------------------------------|--|-------------------------------------------------------------------------------------------------------------------------------------------------|---|
| A. New Institution | | G. Change in Bed Complement Please underline the type of Change: Increase, Decrease, Designation, Distribution, Conversion, Relocation | |
| B. Replacement/Existing Facility | | H. Change of Location | x |
| C. Modification/Existing Facility | | I. Other (Specify): | |
| D. Initiation of Health Care Service as defined in TCA Sec 68-11-1607(4) (Specify) | | | |
| E. Discontinuance of OB Service | | | |
| F. Acquisition of Equipment | | | |

9. Bed Complement Data**NA***(Please indicate current and proposed distribution and certification of facility beds.)*

| | Current Licensed Beds | CON approved beds (not in service) | Staffed Beds | Beds Proposed (Change) | TOTAL Beds at Completion |
|----------------------------------------------------------------------------|--------------------------------------|-----------------------------------------------------------|-------------------------|---------------------------------------|-----------------------------------------|
| A. Medical | | | | | |
| B. Surgical | | | | | |
| C. Long Term Care Hosp. | | | | | |
| D. Obsetrical | | | | | |
| E. ICU/CCU | | | | | |
| F. Neonatal | | | | | |
| G. Pediatric | | | | | |
| H. Adult Psychiatric | | | | | |
| I. Geriatric Psychiatric | | | | | |
| J. Child/Adolesc. Psych. | | | | | |
| K. Rehabilitation | | | | | |
| L. Nursing Facility (non-Medicaid certified) | | | | | |
| M. Nursing Facility Lev. 1 (Medicaid only) | | | | | |
| N. Nursing Facility Lev. 2 (Medicare only) | | | | | |
| O Nursing Facility Lev. 2 (dually certified for Medicare & Medicaid) | | | | | |
| P. ICF/MR | | | | | |
| Q. Adult Chemical Dependency | | | | | |
| R. Child/Adolescent Chemical Dependency | | | | | |
| S. Swing Beds | | | | | |
| T. Mental Health Residential Treatment | | | | | |
| U. Residential Hospice | | | | | |
| TOTAL | | | | | |

10. Medicare Provider Number: 3790000**Certification Type:** Outpatient Diagnostic Center**11. Medicaid Provider Number: 3790000****Certification Type:** Outpatient Diagnostic Center**12. & 13. See page 4**

A.12. IF THIS IS A NEW FACILITY, WILL CERTIFICATION BE SOUGHT FOR MEDICARE AND/OR MEDICAID?

This is an existing licensed facility that participates in both Medicare and TennCare/Medicaid.

A.13. IDENTIFY ALL TENNCARE MANAGED CARE ORGANIZATIONS / BEHAVIORAL HEALTH ORGANIZATIONS (MCO'S/BHO'S) OPERATING IN THE PROPOSED SERVICE AREA. WILL THIS PROJECT INVOLVE THE TREATMENT OF TENNCARE PARTICIPANTS? Yes IF THE RESPONSE TO THIS ITEM IS YES, PLEASE IDENTIFY ALL MCO'S WITH WHICH THE APPLICANT HAS CONTRACTED OR PLANS TO CONTRACT.

DISCUSS ANY OUT-OF-NETWORK RELATIONSHIPS IN PLACE WITH MCO'S/BHO'S IN THE AREA.

| Table One: Contractual Relationships with Service Area MCO's | |
|---------------------------------------------------------------------|---------------------------------|
| Available TennCare MCO's / Medicaid | Applicant's Relationship |
| BlueCare | contracted |
| United Community Healthcare Plan (formerly AmeriChoice) | contracted |
| TennCare Select | contracted |
| Virginia Medicaid | contracted |

SECTION B: PROJECT DESCRIPTION

B.I. PROVIDE A BRIEF EXECUTIVE SUMMARY OF THE PROJECT NOT TO EXCEED TWO PAGES. TOPICS TO BE INCLUDED IN THE EXECUTIVE SUMMARY ARE A BRIEF DESCRIPTION OF PROPOSED SERVICES AND EQUIPMENT, OWNERSHIP STRUCTURE, SERVICE AREA, NEED, EXISTING RESOURCES, PROJECT COST, FUNDING, FINANCIAL FEASIBILITY AND STAFFING.

Proposed Services and Equipment

- Molecular Imaging Alliance, a licensed Outpatient Diagnostic Center (“ODC”) in Gray, Tennessee (northwest Washington County) is the only cardiac PET facility in Upper East Tennessee. This application is to relocate to a smaller office space in the same county. Its current address is 830 Suncrest Drive, Gray, TN; the proposed address is 701 North State of Franklin Road, Johnson City, TN. It will be a move of only 10.6 miles to the east, within Washington County.
- The project will not change the project service area, or the facility’s scope of services. The current location has two leased cardiac PET scanning systems; at the new location the ODC will downsize to one cardiac PET system.

Ownership Structure

- Molecular Imaging Alliance is owned by LifeScan Tennessee, LLC. That entity is now wholly owned by Mr. Rob Gregory of Johnson City, as of the end of CY2012. The LLC owns no interest in any other health facility. Ownership will not change again as a result of this relocation.

Service Area

- This ODC was granted CON approval in CY2007, to provide cardiac PET services to all of Upper East Tennessee. It has been doing that for more than five years. In this relocation, it will not be serving any counties it has not always served.

Need & Existing Resources

- The ODC’s utilization has increased at a compound growth rate of approximately 17% annually since 2009. However, its new owner recognizes that patient demand for its cardiac studies can be met with just one PET system. So the ODC proposes to downsize to only one PET system, which will allow it to lease a smaller space. The best place for the ODC to move is close to Johnson City Medical Center, with its growing numbers of medical specialists who want to refer to a cardiac diagnostic service like this, if it is located close enough for them to take their patients to it.
- This facility offers the only cardiac-specific PET system in Upper East Tennessee. It serves patients from throughout the region, including southwest Virginia.

Project Cost

- The cost for CON purposes, which includes an estimation of the value of leased space, is \$495,339. But the actual capital cost for moving the PET system and renovating the proposed site will be only \$204,500.

Funding

- The actual capital cost will be funded by a local bank.

Financial Feasibility

- Even at a rate of growth much less than the average growth since 2009, this service will operate with a positive margin from the time it opens. It is an established enterprise with no cash flow issues to confront while waiting for a new provider number from Medicare. It is licensed, accredited, certified, contracted with Medicare and TennCare/Medicaid, and well known in the local acute care community.

Staffing

- No additional staff are required. The ODC functions under the medical supervision of Dr. Jeffrey Schoondyke, and the cardiac studies are performed with the assistance of an RN and a nuclear medicine tech.

B.II. PROVIDE A DETAILED NARRATIVE OF THE PROJECT BY ADDRESSING THE FOLLOWING ITEMS AS THEY RELATE TO THE PROPOSAL.

B.II.A. DESCRIBE THE CONSTRUCTION, MODIFICATION AND/OR RENOVATION OF THE FACILITY (EXCLUSIVE OF MAJOR MEDICAL EQUIPMENT COVERED BY T.C.A. 68-11-1601 *et seq.*) INCLUDING SQUARE FOOTAGE, MAJOR OPERATIONAL AREAS, ROOM CONFIGURATION, ETC.

The Applicant

The applicant, Molecular Imaging Alliance, now located at 830 Suncrest Drive, Gray, TN (in western Washington County), is a licensed Outpatient Diagnostic Center (“ODC”) with two (2) cardiac PET scanning systems. As the only cardiac PET provider in the entire region, Molecular Imaging Alliance has been providing cardiac PET scanning services to Upper East Tennessee and southwest Virginia since November 2007, pursuant to CON approval. It leases both its cardiac PET systems from LifeScan Leasing of Tennessee, LLC, an equipment vendor.

Scope of the Project

In this application, the applicant proposes to relocate with only one of its two leased cardiac PET systems (a GE Advance Nx system) 10.6 miles to the east, within Washington county. The proposed new location is in Johnson City, very close to Johnson City Medical Center. There, it will be more convenient to patients referred from the Johnson City medical community and will be adjacent to its largest referral source, Karing Hearts Cardiology, PLLC (the practice of Jeffrey W. Schoondyke, M.D.). The equipment leasing company intends to sell the second cardiac PET unit that has been operating at Molecular Imaging Alliance.

(Note: Wellmont Cardiology Services, Inc. (“WCS”), a not-for-profit corporation and physician group practice, whose sole owner is Wellmont Health System, is filing a simultaneous CON application to purchase from the equipment leasing vendor the other cardiac PET scanner system at Molecular, and to relocate it from Gray to Kingsport in adjoining Sullivan County.)

Location and Design of the Project

In Johnson City, the applicant will occupy Suite 1 on the ground floor end of the “701” Building at 701 North State of Franklin Road, Johnson City, TN 37604. That 4,214 square foot suite currently is vacant, but is under lease to Karing Hearts Cardiology, PLLC, the medical practice in adjoining Suite 2. Karing Hearts Cardiology will sublet Suite 1 to Molecular’s owner, LifeScan Tennessee, LLC, which will renovate the suite as an Outpatient Diagnostic Center for cardiac PET scanning, using the GE system being moved from Gray. That system will continue to be leased from LifeScan Leasing of Tennessee, LLC. No change of ownership of the PET system is proposed.

No new construction is required. As indicated in the tables below, the project requires 847 SF of renovation. The finished ODC will have 4,214 SF of space, including several rooms being held for future expansion. Its total leasehold will be 4,214 SF.

The ODC will contain a cardiac PET camera room with an adjoining control room, a nuclear medicine “hot lab”, a patient prep/uptake bathroom, a patient/visitor bathroom, a reception and waiting area with administrative space, and ample expansion space for future years. The cardiac PET camera room, nuclear medicine room, and patient prep/uptake bathroom are expensive to renovate, due to the need for radiation shielding in their walls. The relocated ODC will continue to meet all licensing standards in its construction and operation. At Gray, the ODC is currently accredited for Nuclear Medicine/Positive Emission Tomography (PET) services by the Intersocietal Accreditation Commission (IAC). That accreditation will be maintained at the proposed new site. A floor plan for the relocated ODC is provided in Attachment B.IV. at the back of this application.

| Table Two-A: Summary of Construction and Changes in Size | |
|-----------------------------------------------------------------|--------------------------|
| | Total Square Feet |
| Facility Before Project (2 card. PET units) | na |
| Facility After Project (1 card. PET unit) | 4,214 SF |
| Net Increase in Size (%) | na |
| Area of New Construction | 0 |
| Area of Buildout or Renovation | 847 SF |
| Total New & Renovated Construction | 847 SF |

| Table Two-B: Construction Costs of This Project | | | |
|-------------------------------------------------|-------------------------|------------------|---------------|
| | Renovation Construction | New Construction | Total Project |
| Square Feet | 847 SF | 0 | 847 SF |
| Construction Cost | \$150,000 | 0 | \$150,000 |
| Constr. Cost PSF | \$177 | 0 | \$177 |

Implementation Schedule and Hours of Operation

If granted CON approval by July 2013, this relocation project can be open for patient service by January 1, 2014. The current hours of operation (scheduled service) for the ODC in Gray are from 7 AM to 5 PM, on weekdays. This schedule will continue at the Johnson City location.

Project Cost and Financing

The project's cost for CON review purposes--which includes the value of leased space--is estimated at \$495,339. LifeScan's actual capital cost (for project design, construction, equipment, and the CON process) will be \$204,500. This amount is available from a local bank (please see the bank's confirmation letter in the Attachments).

Ownership

Ownership of the ODC, its cardiac PET scanning service, and the equipment leasing company will not be changed. The ODC and PET service are already licensed to the CON applicant--LifeScan Tennessee, LLC, a Delaware limited liability company whose sole member is Robert Gregory, a Tennessee resident.

APPLICANTS WITH HOSPITAL PROJECTS (CONSTRUCTION COST IN EXCESS OF \$5 MILLION) AND OTHER FACILITY PROJECTS (CONSTRUCTION COST IN EXCESS OF \$2 MILLION) SHOULD COMPLETE THE SQUARE FOOTAGE AND COSTS PER SQUARE FOOTAGE CHART....

Not applicable.

PLEASE ALSO DISCUSS AND JUSTIFY THE COST PER SQUARE FOOT FOR THIS PROJECT.

ODC renovation projects completed in 2008-2012 ranged from \$52-\$196 PSF construction cost, according to data from the HSDA Registry. See Table Three-A below. Although the HSDA Registry did not compile a similar table for 2008-2012 due to the small number of ODC projects (5) completed in 2012, the Registry has supplied construction cost data for those five projects; see Table Three-B below.

LifeScan's projected renovation cost of \$177 PSF for this very small space is consistent with the range of costs shown in these tables. A very small project like this can be expected to show a relatively high cost per SF compared to larger projects, because larger projects can spread the site mobilization and related fixed costs over a larger square footage, when calculating costs PSF.

| Table Three-A: Outpatient Diagnostic Center Construction Cost PSF Years: 2008-2010 | | | |
|-----------------------------------------------------------------------------------------------|---------------------------|---------------------|-----------------------|
| | Renovated Construction | New Construction | Total Construction |
| 1 st Quartile | \$51.55/sq ft | none | \$51.55/sq ft |
| Median | \$122.15/sq ft | none | \$122.15/sq ft |
| 3 rd Quartile | \$196.46/sq ft | none | \$196.46/sq ft |

Source: HSDA Registry. CON approved applications for years 2008 through 2010

| Table Three-B: Outpatient Diagnostic Center Construction Cost PSF Years: 2012 | | | |
|------------------------------------------------------------------------------------------|------------------------------------|--------------------|------------------------------|
| CON | ODC / Provider | Renovation Area | Construction Cost / sq ft |
| CN0908-044 | ImagDent of Memphis | 1,746 SF | \$51.55/sq ft |
| CN1010-046 | Murfreesboro Diagnostic Imaging | 9,587 SF | \$122.15/sq ft |
| CN1010-047 | Cleveland Imaging | 911 SF | \$269.91/sq ft |
| CN1103-008 | E. TN Community Open MRI | 795 SF | \$160.38/sq ft |
| CN1110-039 | St. Thomas OP Imaging | 7,737 SF | \$159.69/ sq ft |

Source: HSDA Registry. CON approved ODC projects completed in 2012 (all renovation).

IF THE PROJECT INVOLVES NONE OF THE ABOVE, DESCRIBE THE DEVELOPMENT OF THE PROPOSAL.

Not applicable.

B.II.B. IDENTIFY THE NUMBER AND TYPE OF BEDS INCREASED, DECREASED, CONVERTED, RELOCATED, DESIGNATED, AND/OR REDISTRIBUTED BY THIS APPLICATION. DESCRIBE THE REASONS FOR CHANGE IN BED ALLOCATIONS AND DESCRIBE THE IMPACT THE BED CHANGE WILL HAVE ON EXISTING SERVICES.

Not applicable; no inpatient beds are affected by the project.

B.II.C. AS THE APPLICANT, DESCRIBE YOUR NEED TO PROVIDE THE FOLLOWING HEALTH CARE SERVICES (IF APPLICABLE TO THIS APPLICATION):

1. ADULT PSYCHIATRIC SERVICES
2. ALCOHOL AND DRUG TREATMENT ADOLESCENTS >28 DAYS
3. BIRTHING CENTER
4. BURN UNITS
5. CARDIAC CATHETERIZATION SERVICES
6. CHILD AND ADOLESCENT PSYCHIATRIC SERVICES
7. EXTRACORPOREAL LITHOTRIPSY
8. HOME HEALTH SERVICES
9. HOSPICE SERVICES
10. RESIDENTIAL HOSPICE
11. ICF/MR SERVICES
12. LONG TERM CARE SERVICES
13. MAGNETIC RESONANCE IMAGING (MRI)
14. MENTAL HEALTH RESIDENTIAL TREATMENT
15. NEONATAL INTENSIVE CARE UNIT
16. NON-RESIDENTIAL METHADONE TREATMENT CENTERS
17. OPEN HEART SURGERY
18. POSITIVE EMISSION TOMOGRAPHY
19. RADIATION THERAPY/LINEAR ACCELERATOR
20. REHABILITATION SERVICES
21. SWING BEDS

Not applicable. This is an existing cardiac PET service that is only changing its location. Its service area will not change. It has been reviewed and approved in the CON process already, and has been implemented and providing patient care at the originally approved location for more than five years.

B.II.D. DESCRIBE THE NEED TO CHANGE LOCATION OR REPLACE AN EXISTING FACILITY.

Cardiac PET Scanning Technology -- Distinguished from Conventional PET/CT

Cardiac PET studies and conventional PET/CT studies are both types of nuclear medicine tests, in which faintly radioactive substances with short half-lives are injected into the patient, revealing important diagnostic information as they move through the

body and are tracked and measured on imaging equipment and computers. However, cardiac PET and conventional PET/CT studies differ significantly in several ways.

First, they differ in their scope of use. Conventional PET/CT units are almost entirely devoted to oncology and neurology studies (although they can be fitted with a software/hardware retrofit to do cardiac PET procedures). Cardiac PET systems are used for two purposes currently. One purpose is to identify blockages or circulation defects in heart arteries (“myocardial perfusion studies”). These studies provide such good diagnostic information that many patients can avoid having a subsequent diagnostic cardiac catheterization examination, which is an invasive surgical procedure that costs more and imposes higher risks. The other purpose is to measure “myocardial viability” in patients with left ventricular dysfunction, to determine their candidacy for revascularization (arterial graft surgery). The cardiac PET test can show whether the heart tissue at the proposed site of surgery is too compromised to sustain and maintain an arterial graft. If it is, the patient can be spared an expensive, uncomfortable, and ultimately ineffective major surgery.

A second difference between conventional PET/CT and cardiac PET is their cost; a cardiac PET system is much less expensive.

A third difference is that cardiac PET technology uses only two radiopharmaceuticals at the present time: either ammonia (N-13) or rubidium (R-82). The first has a half-life of only 10 minutes. The second has a half-life of only 75 seconds. This means that as a practical matter, the radiopharmaceutical supplier must be within a short drive of the cardiac PET unit, if not in the same building or room. The LifeScan units have been using N-13, supplied by a cyclotron in their same building in Gray. The supplier can continue to provide N-13 to both scanners when they move to Kingsport and Johnson City, merely by manufacturing sufficient amounts of N-13 so that the required dosage is sufficient by the time it is administered. For example, if the delivery trip time plus administration of the pharmaceutical take 30 minutes, then an amount with the strength of eight doses of N-13 might be sent, so that after its radioactivity diminishes by 50% every 10 minutes, 1 full dose will remain available for injection. (“Dose” here is used in an illustrative sense; a patient may receive two doses as defined by nuclear medicine protocols.)

The Need to Relocate from Gray to Johnson City

The applicant ODC is currently located in Gray, Tennessee, in the far western part of Washington County. The referring physicians who generate most of its utilization are based in Johnson City, in eastern Washington County.

There are two reasons for changing location of this ODC. First, the applicant seeks to improve its physical accessibility to referring physicians, who must be at the ODC for medical supervision during their patients' cardiac PET scans. Being in Johnson City will shorten drive times for the majority of the ODC's patients and physicians. For example, the average drive time from Johnson City Medical Center to Gray is 12.3 miles (18 minutes), whereas the drive time from the Medical Center to the proposed site at 701 State of Franklin Road in Johnson City is only 0.8 miles (2 minutes). Round-trip savings for the physician coming from the Medical Center area will be approximately half an hour each time. In fact, the largest single referral practice for this service is Dr. Jeffrey Schoondyke's practice in the adjoining Suite 2 of the 701 Building. With the new site adjacent to his practice office, Dr. Schoondyke and his patients can walk next door for the scan, saving drive time and making it more productive for both of them.

The second reason to move is to lease a smaller space. Molecular Imaging Alliance now operates two cardiac PET systems that require extensive floor space. Molecular has determined that one cardiac PET unit will be sufficient for its referrals for the foreseeable future, and has arranged for its equipment vendor, LifeScan Leasing LLC, to sell the second unit to physicians at Wellmont Health System, when this relocation project receives CON approval. With only one cardiac PET system, Molecular can then move to smaller space. If such a relocation must occur, it makes sense to move to where most of the ODC's current and potential demand is concentrated--in Johnson City. And it makes sense to lease competitively priced space adjacent to a growing cardiology practice that is already the ODC's largest source of referrals.

B.II.E. DESCRIBE THE ACQUISITION OF ANY ITEM OF MAJOR MEDICAL EQUIPMENT (AS DEFINED BY THE AGENCY RULES AND THE STATUTE) WHICH EXCEEDS A COST OF \$1.5 MILLION; AND/OR IS A MAGNETIC RESONANCE IMAGING SCANNER (MRI), POSITRON EMISSION TOMOGRAPHY (PET) SCANNER, EXTRACORPOREAL LITHOTRIPTER AND/OR LINEAR ACCELERATOR BY RESPONDING TO THE FOLLOWING:

1. For fixed site major medical equipment (not replacing existing equipment):
 - a. Describe the new equipment, including:
 1. Total Cost (As defined by Agency Rule);
 2. Expected Useful Life;
 3. List of clinical applications to be provided; and
 4. Documentation of FDA approval.
 - b. Provide current and proposed schedule of operations.
2. For mobile major medical equipment:
 - a. List all sites that will be served;
 - b. Provide current and/or proposed schedule of operations;
 - c. Provide the lease or contract cost;
 - d. Provide the fair market value of the equipment; and
 - e. List the owner for the equipment.
3. Indicate applicant's legal interest in equipment (e.g., purchase, lease, etc.) In the case of equipment purchase, include a quote and/or proposal from an equipment vendor, or in the case of an equipment lease provide a draft lease or contract that at least includes the term of the lease and the anticipated lease payments.

Not applicable. The applicant already leases and operates this cardiac PET scanner, which has served patients of this area for several years. It has already been reviewed and approved in a CON process. However, as a matter of information:

- The PET scanner being relocated is a GE cardiac PET scanner system including the camera, workstation, software, water chiller unit, lead door, in-lab furniture, and miscellaneous items in the lab and control room.
- The PET system's cost/value, as established by a third party evaluation, is approximately \$350,000.
- Its expected useful life is ten years.
- It will perform cardiac PET examinations for both perfusion and blockage evaluations.
- Its current hours of operation in Gray are 7 am to 5 pm weekdays; this schedule will be maintained at its proposed new location in Johnson City.
- The applicant leases the system; a copy of the lease applicable to this relocation is included in the Attachments.

B.III.A. ATTACH A COPY OF THE PLOT PLAN OF THE SITE ON AN 8-1/2" X 11" SHEET OF WHITE PAPER WHICH MUST INCLUDE:

- 1. SIZE OF SITE (IN ACRES);**
- 2. LOCATION OF STRUCTURE ON THE SITE;**
- 3. LOCATION OF THE PROPOSED CONSTRUCTION; AND**
- 4. NAMES OF STREETS, ROADS OR HIGHWAYS THAT CROSS OR BORDER THE SITE.**

PLEASE NOTE THAT THE DRAWINGS DO NOT NEED TO BE DRAWN TO SCALE. PLOT PLANS ARE REQUIRED FOR ALL PROJECTS.

See Attachment B.III.A.

B.III.B.1. DESCRIBE THE RELATIONSHIP OF THE SITE TO PUBLIC TRANSPORTATION ROUTES, IF ANY, AND TO ANY HIGHWAY OR MAJOR ROAD DEVELOPMENTS IN THE AREA. DESCRIBE THE ACCESSIBILITY OF THE PROPOSED SITE TO PATIENTS/CLIENTS.

The project site is very accessible to this ODC's service area. Johnson City is the largest community in Washington County and is a tertiary healthcare referral destination, well known to patients living throughout the service area. The project site is reasonably accessible to all parts of upper East Tennessee by Federal and State highways. It is within minutes of I-26, which connects quickly to I-81, the major east-west highway in that region. US Highways 23 and 321, and Highways 67, 173, and 37 also provide access to other parts of the primary service area. Table Four below shows the average distances and drive times to principal cities in the project's primary service area.

| Table Four: Mileage and Drive Times Between Project and Major Communities in the Primary Service Area | | | |
|------------------------------------------------------------------------------------------------------------------|---------------|-----------------|-------------------|
| From project at 701 N. State of Franklin Road, Johnson City, to: | County | Distance | Drive Time |
| 1. Elizabethton | Carter | 12.8 mi. | 23 min. |
| 2. Erwin | Unicoi | 18.2 mi | 24 min. |
| 3. Greeneville | Greene | 29.2 mi. | 38 min. |
| 4. Kingsport | Sullivan | 23.5 mi. | 29 min. |
| 5. Johnson City Med. Center (central Johnson City) | Washington | 0.8 mi. | 2 min. |

Source: Google Maps, April 2013.

B.IV. ATTACH A FLOOR PLAN DRAWING FOR THE FACILITY WHICH INCLUDES PATIENT CARE ROOMS (NOTING PRIVATE OR SEMI-PRIVATE), ANCILLARY AREAS, EQUIPMENT AREAS, ETC.

See attachment B.IV.

IV. FOR A HOME CARE ORGANIZATION, IDENTIFY

- 1. EXISTING SERVICE AREA (BY COUNTY);**
- 2. PROPOSED SERVICE AREA (BY COUNTY);**
- 3. A PARENT OR PRIMARY SERVICE PROVIDER;**
- 4. EXISTING BRANCHES AND/OR SUB-UNITS; AND**
- 5. PROPOSED BRANCHES AND/OR SUBUNITS.**

Not applicable. The application is not for a home care organization.

C(I) NEED

C(I).1. DESCRIBE THE RELATIONSHIP OF THIS PROPOSAL TO THE IMPLEMENTATION OF THE STATE HEALTH PLAN AND TENNESSEE'S HEALTH: GUIDELINES FOR GROWTH.

A. PLEASE PROVIDE A RESPONSE TO EACH CRITERION AND STANDARD IN CON CATEGORIES THAT ARE APPLICABLE TO THE PROPOSED PROJECT. DO NOT PROVIDE RESPONSES TO GENERAL CRITERIA AND STANDARDS (PAGES 6-9) HERE.

B. APPLICATIONS THAT INCLUDE A CHANGE OF SITE FOR A HEALTH CARE INSTITUTION, PROVIDE A RESPONSE TO GENERAL CRITERION AND STANDARDS (4)(a-c).

Project-Specific Review Criteria: PET Scanners

The State Health Plan contains CON review criteria for PET scanners. The applicant believes that responses to those criteria should not be required for this project. They were intended to guide review of proposed new PET units in a service area, i.e., projects in which an additional PET is proposed for an area, or in which a prior approved PET is proposing a relocation that will result in a new service area.

Neither factor is present in this project. This project is to relocate an existing cardiac PET system, not to add a system to the area. The relocation is within the same county, and at the new location, the ODC and cardiac PET system will serve only counties that they are already serving from Gray. The ODC already received prior CON approval to serve those counties, and has done so for more than five years. A re-evaluation of this service under the PET Guidelines would not be meaningful for this particular change of ownership and location. The applicant requests that responses to these criteria not be required.

Project-Specific Review Criteria: Construction, Renovation, Expansion, and Replacement of Health Care Institutions

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

Not applicable. No new services, beds, or medical equipment are part of this application. The medical equipment (cardiac PET scanning system) in the project has been operating with CON approval for more than five years. This application is only to change its location within the same service area.

2. For relocation or replacement of an existing licensed healthcare institution:

a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.

Not applicable. The applicant does not own the space now occupied for this ODC. The space is excessive in light of future needs. Smaller leased space must be obtained. There is no option other than relocation.

b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

Over the period 2009-2012, utilization of the applicant's ODC increased more than 17% per year (compound annual growth rate or CAGR). See Section C(I)5 of the application. The applicant is projecting continued utilization increases of 10% annually from CY2013-CY2015. Both current and future demand for cardiac PET service are strong, justifying continuation of the service, but in a smaller leased space to lower expenses and strengthen the ODC's financial feasibility.

3. For renovation or expansion of an existing licensed healthcare institution:

a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.

b. the applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

Not applicable; this is neither a renovation nor an expansion project.

General Criteria for Change of Site

(4) **Applications for Change of Site.** When considering a certificate of need application which is limited to a request for a change of site for a proposed new health care institution, the Agency may consider, in addition to the foregoing factors, the following factors:

(a) *Need.* The applicant should show the proposed new site will serve the health care needs in the area to be served at least as well as the original site. The applicant should show that there is some significant legal, financial, or practical need to change the proposed site.

(b) *Economic Factors.* The applicant should show that the proposed new site would be at least as economically beneficial to the population to be served as the original site.

(c) *Contribution to the orderly development of health care facilities and/or services.* The applicant should address any potential delays that would be caused by the proposed change of site, and show that any such delays are outweighed by the benefit that will be gained from the change of site by the population to be served.

Criterion #4 is not applicable. This is not a proposed new healthcare institution. It is an existing one, proposing to relocate.

The Framework for Tennessee's Comprehensive State Health Plan

Five Principles for Achieving Better Health

The following Five Principles for Achieving Better Health serve as the basic framework for the State Health Plan. After each principle, the applicant states how this CON application supports the principle, if applicable.

1. Healthy Lives

The purpose of the State Health Plan is to improve the health of Tennesseans. Every person's health is the result of the interaction of individual behaviors, society, the environment, economic factors, and our genetic endowment. The State Health Plan serves to facilitate the collaboration of organizations and their ideas to help address health at these many levels.

This project reflects a cooperative effort by the Molecular Imaging Alliance ODC in Gray, and Wellmont Cardiology Services, to separate the two underutilized PET units now at Molecular's ODC, and to move them closer to the region's two largest concentrations of patients and cardiologists needing that service. The relocation of the two units into the medical care centers of the region will greatly improve patient and supervising physician access to this testing modality, which in turn will increase its utilization, providing improved diagnostic information and significant cost savings in terms of subsequent interventional care.

2. Access to Care

Every citizen should have reasonable access to health care. Many elements impact one's access to health care, including existing health status, employment, income, geography, and culture. The State Health Plan can provide standards for reasonable access, offer policy direction to improve access, and serve a coordinating role to expand health care access.

Geography has been a barrier to optimal use of the cardiac PET scanning systems at this ODC in Gray. The ODC is located miles outside the medical centers of the service area, making it less accessible for patients and physicians and limiting its use. This project and its companion project in Kingsport will address that issue, improving access over what it is today.

3. Economic Efficiencies

The state's health care resources should be developed to address the needs of Tennesseans while encouraging competitive markets, economic efficiencies and the continued development of the state's health care system. The State Health Plan should work to identify opportunities to improve the efficiency of the state's health care system and to encourage innovation and competition.

This is an opportunity for the State regulatory system to assist providers in making a needed service more accessible, so that its technology can be more completely and efficiently utilized.

4. Quality of Care

Every citizen should have confidence that the quality of health care is continually monitored and standards are adhered to by health care providers. Health care providers are held to certain professional standards by the state's licensure system. Many health care stakeholders are working to improve their quality of care through adoption of best practices and data-driven evaluation.

The project will bring this modality much closer to its current and potential users (cardiologists and their patients in Johnsons City). That will make it more readily, efficiently accessible. The applicant believes that increased accessibility to cardiac PET scanning will increase its use, leading to better diagnostic data which can improve diagnosis and intervention for this large group of patients.

5. Health Care Workforce

The state should support the development, recruitment, and retention of a sufficient and quality health care workforce. The state should consider developing a comprehensive approach to ensure the existence of a sufficient, qualified health care workforce, taking into account issues regarding the number of providers at all levels and in all specialty and focus areas, the number of professionals in teaching positions, the capacity of medical, nursing, allied health and other educational institutions, state and federal laws and regulations impacting capacity programs, and funding.

The project is neutral with respect to training of health professionals. It is not a training/rotation site for any schools at the present time. The applicant would welcome such an affiliation, should it be offered.

C(1).2. DESCRIBE THE RELATIONSHIP OF THIS PROJECT TO THE APPLICANT'S LONG-RANGE DEVELOPMENT PLANS, IF ANY.

The applicant is not a hospital and does not prepare its own long-range campus or development plan.

C(I).3. IDENTIFY THE PROPOSED SERVICE AREA AND JUSTIFY THE REASONABLENESS OF THAT PROPOSED AREA. SUBMIT A COUNTY-LEVEL MAP INCLUDING THE STATE OF TENNESSEE CLEARLY MARKED TO REFLECT THE SERVICE AREA. PLEASE SUBMIT THE MAP ON A 8-1/2" X 11" SHEET OF WHITE PAPER MARKED ONLY WITH INK DETECTABLE BY A STANDARD PHOTOCOPIER (I.E., NO HIGHLIGHTERS, PENCILS, ETC.).

A service area map and a map showing the location of the service within the State of Tennessee are provided as Attachments C, Need--3 at the back of the application.

The cardiac PET service area will continue to reflect the patient origin of Molecular Imaging Alliance ODC in CY2012. Table Five on the next page shows the CY2012 primary service area counties for the ODC, and projects county-level cardiac PET patient origin for the primary service area in Years One and Two of the project. These five counties generated 89% of the cardiac PET service's patients in CY2012.

More than 49% of all patients served were residents of Washington County, where the ODC is now, and proposes to remain. Almost 40% came from adjoining Carter, Unicoi, Greene, and Sullivan Counties. Approximately 6% were from several (unidentified) southwest Virginia counties. Another 4% came from Johnson, Hawkins, Claiborne, and Grainger Counties in Tennessee. The remaining patients, less than 1%, came from four other States.

**Table Five: Patient Origin
Molecular Imaging Alliance (Lifescan) Cardiac PET Scans
CY2012 / CY2014-CY2015**

| County | ODC Patients / Scans CY2012 | Percent of Total | Cumulative Percent of Total | CY2014 Cardiac PET Scans | CY2015 Cardiac PET Scans |
|-----------------------------------------------|------------------------------------------------|-----------------------------|--------------------------------------------|-----------------------------------------|-----------------------------------------|
| Washington | 330 | 49.4% | 49.4% | 399 | 439 |
| Carter | 119 | 17.8% | 67.2% | 144 | 158 |
| Unicoi | 54 | 8.1% | 75.3% | 65 | 72 |
| Greene | 52 | 7.8% | 83.1% | 63 | 69 |
| Sullivan | 40 | 6.0% | 89.1% | 48 | 53 |
| <i>Primary Service Area Subtotal</i> | 595 | 89.1% | | 720 | 792 |
| <i>4 other TN Counties and 4 other States</i> | | 0.0% | | 88 | 97 |
| <i>Grand Total</i> | 668 | 100.0% | | 808 | 889 |

Source: Cardiac PET scan patient origin from ODC records; projections by ODC management.

C(I).4.A DESCRIBE THE DEMOGRAPHICS OF THE POPULATION TO BE SERVED BY THIS PROPOSAL.

Table Six, following this page, provides the demographic profile for the five Tennessee counties in this project's primary service area. Basically, area residents are somewhat older and lower income than the State average.

The counties in the primary service area (all in Tennessee) have a median age of 42.5 compared to the State median age of 37.8; and almost 18% of area residents are elderly compared to almost 14% Statewide. In addition, the service area's elderly population is projected to increase 8.6% in size over the next four years. The aging of the population will continue to increase the need for high-quality, accessible, affordable cardiac care in this area. This project helps meet all three needs.

Also, the service area's median income of \$37,280 is 14% below the State average; and more of the residents live below poverty level (19.6%) than the State average of 16.5%. The service area's TennCare population is 17.7% of all residents, compared to 19% Statewide. The project will be accessible to low-income residents of the service area. Approximately 59% of patients served by the project will be Medicare or Medicaid/TennCare enrollees (55% Medicare; 4% TennCare).

**Table Six: Demographic Characteristics of Primary Service Area Counties
Molecular Imaging Alliance Cardiac PET ODC (LifeScan)
2013-2017**

| Demographic | Washington County | Carter County | Unicoi County | Greene County | Sullivan County | PRIMARY SERVICE AREA | STATE OF TENNESSEE |
|------------------------------------------------------------------|----------------------|------------------|------------------|------------------|--------------------|----------------------------|-----------------------|
| Median Age-2010 US Census | 39.3 | 42.2 | 44.9 | 42.6 | 43.6 | 42.5 | 37.8 |
| Total Population-2013 | 120,136 | 60,119 | 17,903 | 68,390 | 154,387 | 420,935 | 6,361,070 |
| Total Population-2017 | 123,276 | 60,700 | 17,982 | 69,636 | 154,946 | 426,540 | 6,575,165 |
| Total Population-% Change 2013 to 2017 | 2.6% | 1.0% | 0.4% | 1.8% | 0.4% | 1.3% | 3.4% |
| Age 65+ Population-2013 | 19,303 | 10,176 | 3,597 | 12,146 | 29,471 | 74,693 | 878,496 |
| % of Total Population | 16.1% | 16.9% | 20.1% | 17.8% | 19.1% | 17.7% | 13.8% |
| Age 65+ Population-2017 | 21,430 | 10,978 | 3,874 | 13,173 | 31,683 | 81,138 | 987,074 |
| % of Population | 17.4% | 18.1% | 21.5% | 18.9% | 20.4% | 19.0% | 15.0% |
| Age 65+ Population- % Change 2013-2017 | 11.0% | 7.9% | 7.7% | 8.5% | 7.5% | 8.6% | 12.4% |
| Median Household Income | \$42,104 | \$32,148 | \$35,265 | \$36,310 | \$40,572 | \$37,280 | \$43,314 |
| TennCare Enrollees (12/12) | 19,002 | 11,353 | 3,590 | 12,877 | 27,451 | 74,273 | 1,205,480 |
| Percent of 2012 Population Enrolled in TennCare | 15.8% | 18.9% | 20.1% | 18.8% | 17.8% | 17.6% | 19.0% |
| Persons Below Poverty Level (2012) | 20,784 | 13,226 | 3,706 | 14,772 | 25,474 | 77,952 | 1,049,577 |
| Persons Below Poverty Level As % of Population (US Census) | 17.3% | 22.0% | 20.7% | 21.6% | 16.5% | 19.6% | 16.5% |

Sources: TDH Population Projections, Feb. 2008; U.S. Census QuickFacts and FactFinder2;
TennCare Bureau. PSA data is unweighted average or total of county data.
NR means not reported in U.S. Census source document.

C(1).4.B. DESCRIBE THE SPECIAL NEEDS OF THE SERVICE AREA POPULATION, INCLUDING HEALTH DISPARITIES, THE ACCESSIBILITY TO CONSUMERS, PARTICULARLY THE ELDERLY, WOMEN, RACIAL AND ETHNIC MINORITIES, AND LOW-INCOME GROUPS. DOCUMENT HOW THE BUSINESS PLANS OF THE FACILITY WILL TAKE INTO CONSIDERATION THE SPECIAL NEEDS OF THE SERVICE AREA POPULATION.

The applicant has been the service area's sole provider of cardiac PET scanning for more than five years, and has demonstrated accessibility to these consumer groups. More than half (59%) of this ODC's patients in CY2012 were Medicare or TennCare/Medicaid. The ODC will continue to be accessible to these groups at its new location. The ODC's previous owners (ownership changed in late CY2012) provided a limited amount of charity care; under current management the amount is projected to increase to 2% of gross charges. The ODC's current management does not put patient bills out to collection, but rather works with each patient to pay as he or she is able.

C(I).5. DESCRIBE THE EXISTING OR CERTIFIED SERVICES, INCLUDING APPROVED BUT UNIMPLEMENTED CON'S, OF SIMILAR INSTITUTIONS IN THE SERVICE AREA. INCLUDE UTILIZATION AND/OR OCCUPANCY TRENDS FOR EACH OF THE MOST RECENT THREE YEARS OF DATA AVAILABLE FOR THIS TYPE OF PROJECT. BE CERTAIN TO LIST EACH INSTITUTION AND ITS UTILIZATION AND/OR OCCUPANCY INDIVIDUALLY. INPATIENT BED PROJECTS MUST INCLUDE THE FOLLOWING DATA: ADMISSIONS OR DISCHARGES, PATIENT DAYS, AND OCCUPANCY. OTHER PROJECTS SHOULD USE THE MOST APPROPRIATE MEASURES, E.G., CASES, PROCEDURES, VISITS, ADMISSIONS, ETC.

The applicant's ODC in Gray operates the only cardiac PET systems in Upper East Tennessee. Table Seven below shows its historic utilization from 2009 to 2012. Its growth has been exceptionally strong despite its remote location midway between the region's two largest medical care centers. Over the period 2009-2012, utilization of the service increased more than 17% per year (compound annual growth rate or CAGR).

| Table Seven: Utilization of Molecular Imaging Alliance Cardiac PET 2009-2012 | | | | |
|-------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|
| | 2009 | 2010 | 2011 | 2012 |
| Procedures | 411 | 342 | 514 | 668 |
| % Annual Change | -- | - 16.8% | +50.3% | +30.0% |
| Numeric Annual Change | -- | -69 | +172 | +154 |
| % Change 2009-2012 | -- | -- | -- | +62.5% |
| Numeric Change 2009-12 | -- | -- | -- | +257 |
| Compound Annual Growth Rate 2009-2012 | -- | -- | -- | >17% |

Source: HSDA Registry 2009-11; Molecular Imaging Alliance records, 2012.

C(1).6. PROVIDE APPLICABLE UTILIZATION AND/OR OCCUPANCY STATISTICS FOR YOUR INSTITUTION FOR EACH OF THE PAST THREE (3) YEARS AND THE PROJECTED ANNUAL UTILIZATION FOR EACH OF THE TWO (2) YEARS FOLLOWING COMPLETION OF THE PROJECT. ADDITIONALLY, PROVIDE THE DETAILS REGARDING THE METHODOLOGY USED TO PROJECT UTILIZATION. THE METHODOLOGY MUST INCLUDE DETAILED CALCULATIONS OR DOCUMENTATION FROM REFERRAL SOURCES, AND IDENTIFICATION OF ALL ASSUMPTIONS.

Repeated from the previous response, Table Seven below shows the applicant ODC's historic utilization from 2009 to 2012. Its growth has been exceptionally strong despite its remote location midway between the region's two largest medical care centers. Over the period 2009-2012, utilization of the service increased more than 17% per year (compound annual growth rate or CAGR).

| Table Seven: Utilization of Molecular Imaging Alliance Cardiac PET 2009-2012 | | | | |
|-----------------------------------------------------------------------------------------|-------------|-------------|-------------|-------------|
| | 2009 | 2010 | 2011 | 2012 |
| Procedures | 411 | 342 | 514 | 668 |
| % Annual Change | -- | - 16.8% | +50.3% | +30.0% |
| Numeric Annual Change | -- | -69 | +172 | +154 |
| % Change 2009-2012 | -- | -- | -- | +62.5% |
| Numeric Change 2009-12 | -- | -- | -- | +257 |
| Compound Annual Growth Rate 2009-2012 | -- | -- | -- | >17% |

Source: HSDA Registry 2009-11; Molecular Imaging Alliance records, 2012.

Table Eight below shows the applicant's projected utilization in the first two calendar years of this project's operation at the proposed Johnson City site. It is conservatively projected to increase at 10% annually (compound annual growth rate or CAGR) from 2012 through 2015. This is a much slower rate of increase than the 17% annual growth rate experienced since 2009.

| Table Eight: Projected Utilization of Molecular Imaging Alliance Cardiac PET 2012-2015 | | | | |
|---------------------------------------------------------------------------------------------------|---------------|---------------|---------------|---------------|
| | CY2012 | CY2013 | CY2014 | CY2015 |
| Procedures | 668 | 735 | 808 | 889 |
| Annual Change | -- | +10% | +10% | +10% |

Source: ODC management.

C(II)1. PROVIDE THE COST OF THE PROJECT BY COMPLETING THE PROJECT COSTS CHART ON THE FOLLOWING PAGE. JUSTIFY THE COST OF THE PROJECT.

- **ALL PROJECTS SHOULD HAVE A PROJECT COST OF AT LEAST \$3,000 ON LINE F (MINIMUM CON FILING FEE). CON FILING FEE SHOULD BE CALCULATED ON LINE D.**

- **THE COST OF ANY LEASE (BUILDING, LAND, AND/OR EQUIPMENT) SHOULD BE BASED ON FAIR MARKET VALUE OR THE TOTAL AMOUNT OF THE LEASE PAYMENTS OVER THE INITIAL TERM OF THE LEASE, WHICHEVER IS GREATER. NOTE: THIS APPLIES TO ALL EQUIPMENT LEASES INCLUDING BY PROCEDURE OR "PER CLICK" ARRANGEMENTS. THE METHODOLOGY USED TO DETERMINE THE TOTAL LEASE COST FOR A "PER CLICK" ARRANGEMENT MUST INCLUDE, AT A MINIMUM, THE PROJECTED PROCEDURES, THE "PER CLICK" RATE AND THE TERM OF THE LEASE.**

- **THE COST FOR FIXED AND MOVEABLE EQUIPMENT INCLUDES, BUT IS NOT NECESSARILY LIMITED TO, MAINTENANCE AGREEMENTS COVERING THE EXPECTED USEFUL LIFE OF THE EQUIPMENT; FEDERAL, STATE, AND LOCAL TAXES AND OTHER GOVERNMENT ASSESSMENTS; AND INSTALLATION CHARGES, EXCLUDING CAPITAL EXPENDITURES FOR PHYSICAL PLANT RENOVATION OR IN-WALL SHIELDING, WHICH SHOULD BE INCLUDED UNDER CONSTRUCTION COSTS OR INCORPORATED IN A FACILITY LEASE.**

- **FOR PROJECTS THAT INCLUDE NEW CONSTRUCTION, MODIFICATION, AND/OR RENOVATION; DOCUMENTATION MUST BE PROVIDED FROM A CONTRACTOR AND/OR ARCHITECT THAT SUPPORT THE ESTIMATED CONSTRUCTION COSTS.**

The architect's letter supporting the construction cost estimate is provided in Attachment C, Economic Feasibility--1.

On the Project Costs Chart, following this response:

Line A.1, A&E fees, were estimated by the project architect.

Line A.2, legal, administrative, and consultant fees, include costs for the CON process and legal services during project planning.

Line A.5, construction cost, was calculated at only \$150,000, for renovation (including shielding) of 847 SF of the 2,414 SF space that will be leased.

Line A.6, contingency, was estimated by the architect, and represents 5% of construction costs in line A.5.

Line A.7 includes for fixed and moveable equipment indicates no costs because this project will relocate an entire cardiac PET system and all related equipment and room furnishings to the new site.

Line A.9 includes such costs as miscellaneous minor equipment and furnishings, miscellaneous fees and overhead, and moving expenses.

Line B.1, \$290,839, is the fair market value of the facility being leased, calculated in the two alternative ways required by staff rules. The pro rata market value of the space in the building exceeded the lease outlay, and was entered in this line of the Project Cost Chart as required by staff rules.

Lease Outlay Method:

5 years first lease term X 2,414 SF X \$11.75 PSF lease rate = \$141,943.20
lease outlay over first term.

Pro Rata Building Value Method:

2,414 SF project / 23,000 SF total building X \$2,771,044 recent sale price of the building = \$290,839 pro rata value of the space to be leased

PROJECT COSTS CHART -- MOLECULAR IMAGING ALLIANCE--CARDIAC PET ODC CHANGE OF SITE

A. Construction and equipment acquired by purchase 2019 APR 15 PM 3 03

| | | |
|-------------------------------------------------------------|----|---------|
| 1. Architectural and Engineering Fees | \$ | 11,000 |
| 2. Legal, Administrative, Consultant Fees (Excl CON Filing) | | 30,000 |
| 3. Acquisition of Site | | 0 |
| 4. Preparation of Site | | 0 |
| 5. Construction Cost | | 150,000 |
| 6. Contingency Fund | | 7,500 |
| 7. Fixed Equipment (Not included in Construction Contract) | | 0 |
| 8. Moveable Equipment (List all equipment over \$50,000) | | 0 |
| 9. Other (Specify) <u>moving expenses</u> | | 1,500 |
| <u>misc office equipment/furnishings</u> | | 1,500 |

B. Acquisition by gift, donation, or lease:

| | | |
|----------------------------------------------|-------------------|---------|
| 1. Facility (inclusive of building and land) | FMV-Building Area | 290,839 |
| 2. Building only | | 0 |
| 3. Land only | | 0 |
| 4. Equipment (Specify) _____ | | 0 |
| 5. Other (Specify) _____ | | 0 |

C. Financing Costs and Fees:

| | |
|----------------------------------------|---|
| 1. Interim Financing | 0 |
| 2. Underwriting Costs | 0 |
| 3. Reserve for One Year's Debt Service | 0 |
| 4. Other (Specify) _____ | 0 |

D. Estimated Project Cost
(A+B+C)

492,339

E. CON Filing Fee

3,000

F. Total Estimated Project Cost (D+E)

TOTAL \$ 495,339

Actual Capital Cost 204,500
 Section B FMV 290,839

C(II).2. IDENTIFY THE FUNDING SOURCES FOR THIS PROJECT.

a. PLEASE CHECK THE APPLICABLE ITEM(S) BELOW AND BRIEFLY SUMMARIZE HOW THE PROJECT WILL BE FINANCED. (DOCUMENTATION FOR THE TYPE OF FUNDING MUST BE INSERTED AT THE END OF THE APPLICATION, IN THE CORRECT ALPHANUMERIC ORDER AND IDENTIFIED AS ATTACHMENT C, ECONOMIC FEASIBILITY--2).

☒ **A. Commercial Loan--Letter from lending institution or guarantor stating favorable initial contact, proposed loan amount, expected interest rates, anticipated term of the loan, and any restrictions or conditions;**

☐ **B. Tax-Exempt Bonds--copy of preliminary resolution or a letter from the issuing authority, stating favorable contact and a conditional agreement from an underwriter or investment banker to proceed with the issuance;**

☐ **C. General Obligation Bonds--Copy of resolution from issuing authority or minutes from the appropriate meeting;**

☐ **D. Grants--Notification of Intent form for grant application or notice of grant award;**

☐ **E. Cash Reserves--Appropriate documentation from Chief Financial Officer; or**

☐ **F. Other--Identify and document funding from all sources.**

The applicant has arranged for bank loan financing for the actual capital cost of the project, which is \$204,500. Documentation of financing is provided in Attachment C, Economic Feasibility--2.

C(II).3. DISCUSS AND DOCUMENT THE REASONABLENESS OF THE PROPOSED PROJECT COSTS. IF APPLICABLE, COMPARE THE COST PER SQUARE FOOT OF CONSTRUCTION TO SIMILAR PROJECTS RECENTLY APPROVED BY THE HSDA.

ODC renovation projects completed in 2008-2012 ranged from \$52-\$196 PSF construction cost, according to data from the HSDA Registry. See Table Three-A below. Although the HSDA Registry did not compile a similar table for 2008-2012 due to the small number of ODC projects (5) completed in 2012, the Registry has supplied construction cost data for those five projects; see Table Three-B below.

LifeScan's projected renovation cost of \$177 PSF for this very small space is very much consistent with the range of costs shown in these tables. A very small project like this can be expected to show a relatively high cost per SF compared to larger projects, because larger projects can spread the site mobilization and related fixed costs over a larger square footage, when calculating costs PSF.

| Table Three-A: Outpatient Diagnostic Center Construction Cost PSF Years: 2008-2010 | | | |
|-----------------------------------------------------------------------------------------------|---------------------------|---------------------|-----------------------|
| | Renovated Construction | New Construction | Total Construction |
| 1 st Quartile | \$51.55/sq ft | none | \$51.55/sq ft |
| Median | \$122.15/sq ft | none | \$122.15/sq ft |
| 3 rd Quartile | \$196.46/sq ft | none | \$196.46/sq ft |

Source: HSDA Registry. CON approved applications for years 2008 through 2010

| Table Three-B: Outpatient Diagnostic Center Construction Cost PSF Years: 2012 | | | |
|------------------------------------------------------------------------------------------|------------------------------------|--------------------|------------------------------|
| CON | ODC / Provider | Renovation Area | Construction Cost / sq ft |
| CN09808-044 | ImagDent of Memphis | 1,746 SF | \$51.55/sq ft |
| CN1010-046 | Murfreesboro Diagnostic Imaging | 9,587 SF | \$122.15/sq ft |
| CN1010-047 | Cleveland Imaging | 911 SF | \$269.91/sq ft |
| CN1103-008 | E. TN Community Open MRI | 795 SF | \$160.38/sq ft |
| CN1110-039 | St. Thomas OP Imaging | 7,737 SF | \$159.69/ sq ft |

Source: HSDA Registry. CON approved ODC projects completed in 2012 (all renovation).

C(II).4. COMPLETE HISTORICAL AND PROJECTED DATA CHARTS ON THE FOLLOWING TWO PAGES--DO NOT MODIFY THE CHARTS PROVIDED OR SUBMIT CHART SUBSTITUTIONS. HISTORICAL DATA CHART REPRESENTS REVENUE AND EXPENSE INFORMATION FOR THE LAST THREE (3) YEARS FOR WHICH COMPLETE DATA IS AVAILABLE FOR THE INSTITUTION. PROJECTED DATA CHART REQUESTS INFORMATION FOR THE TWO YEARS FOLLOWING COMPLETION OF THIS PROPOSAL. PROJECTED DATA CHART SHOULD INCLUDE REVENUE AND EXPENSE PROJECTIONS FOR THE PROPOSAL ONLY (I.E., IF THE APPLICATION IS FOR ADDITIONAL BEDS, INCLUDE ANTICIPATED REVENUE FROM THE PROPOSED BEDS ONLY, NOT FROM ALL BEDS IN THE FACILITY).

See the following pages for these charts, with notes where applicable.

2013 APR 24 PM 2 02

HISTORICAL DATA CHART--MOLECULAR IMAGING ALLIANCE/LIFESCAN ODC (CARDIAC PET SERVICE)

Give information for the last three (3) years for which complete data are available for the facility or agency.

The fiscal year begins in January.

| | Year 2010 | Year 2011 | Year 2012 |
|-----------------------------------------------|---------------------|---------------------|---------------------|
| A. Utilization Data (Cardiac PET procedures) | 342 | 514 | 668 |
| B. Revenue from Services to Patients | | | |
| 1. Inpatient Services | \$ | | |
| 2. Outpatient Services | 1,593,971 | 2,466,844 | 3,200,190 |
| 3. Emergency Services | | | |
| 4. Other Operating Revenue | | | |
| (Specify) <u>See notes</u> | | | |
| Gross Operating Revenue | \$ 1,593,971 | \$ 2,466,844 | \$ 3,200,190 |
| C. Deductions for Operating Revenue | | | |
| 1. Contractual Adjustments | \$ 1,029,423 | 1,543,961 | 1,919,403 |
| 2. Provision for Charity Care | 3,964 | 2,412 | 8,348 |
| 3. Provisions for Bad Debt | 15,860 | 9,648 | 33,393 |
| Total Deductions | \$ 1,049,247 | \$ 1,556,021 | \$ 1,961,144 |
| NET OPERATING REVENUE | \$ 544,724 | \$ 910,823 | \$ 1,239,046 |
| D. Operating Expenses | | | |
| 1. Salaries and Wages | \$ 236,800 | 271,935 | 189,086 |
| 2. Physicians Salaries and Wages | 45,350 | 45,600 | 37,266 |
| 3. Supplies | 203,570 | 117,248 | 105,499 |
| 4. Taxes | 26,922 | 26,829 | 17,252 |
| 5. Depreciation | 119,670 | 106,798 | 91,940 |
| 6. Rent | 33,075 | 30,875 | 33,369 |
| 7. Interest, other than Capital | 1,026 | 559 | 142 |
| 8. Management Fees | | | |
| a. Fees to Affiliates | 68,373 | 75,907 | 127,825 |
| b. Fees to Non-Affiliates | 0 | 0 | 0 |
| 9. Other Expenses (Specify) <u>See notes</u> | 397,545 | 839,624 | 1,371,933 |
| Total Operating Expenses | \$ 1,132,331 | \$ 1,515,375 | \$ 1,974,312 |
| E. Other Revenue (Expenses) -- Net (Specify) | \$ | \$ | \$ |
| NET OPERATING INCOME (LOSS) | \$ (587,607) | \$ (604,552) | \$ (735,266) |
| F. Capital Expenditures | | | |
| 1. Retirement of Principal | \$ | \$ | \$ |
| 2. Interest | | | |
| Total Capital Expenditures | \$ 0 | \$ 0 | \$ 0 |
| NET OPERATING INCOME (LOSS) | | | |
| LESS CAPITAL EXPENDITURES | \$ (587,607) | \$ (604,552) | \$ (735,266) |

2013 APR 24 PM 2 02

HISTORIC DATA CHART
NOTES TO OTHER EXPENSES (LINE D9)

| | CY2010 | | CY2011 | | C2012 |
|---------------------------|---------|--|---------|--|-----------|
| Contracted Services | 7,658 | | 10,470 | | 1,079 |
| Laundry | 4,757 | | 2,731 | | 0 |
| Medical waste disposal | 1,306 | | 1,119 | | 455 |
| Other direct costs | 641 | | 432 | | 452 |
| Contracted labor | 53,364 | | 180 | | -27,893 |
| Other employee benefits | 12,422 | | 17,985 | | 14,364 |
| Cont Education | 0 | | 0 | | 50 |
| Meals and Ent | 6,468 | | 1,043 | | 704 |
| Postage | 320 | | 1,276 | | 103 |
| Shipping and delivery | 1,451 | | 170 | | 45 |
| Advertising marketing | 2,416 | | | | 0 |
| Gifts | 49 | | | | 0 |
| Travel | 28,028 | | 5,448 | | 3,742 |
| Auto expense | 9,054 | | 1,062 | | 1,618 |
| Subscription | 262 | | 174 | | 34 |
| Charitable cont | 1,250 | | | | |
| Common area maint | 5,100 | | 5,100 | | 5,100 |
| Utilities | 24,503 | | 18,656 | | 30,243 |
| Office expense | 6,537 | | 4,282 | | 4,873 |
| Service contracts | 76,635 | | 39,758 | | 4,100 |
| Repairs and maintenance | 66,613 | | 14,026 | | 5,871 |
| Radiological Fees | 48,511 | | 75,412 | | 102,732 |
| Bank and Credit Card Fees | 309 | | 629 | | 1,708 |
| Professional Fees | 4,911 | | 6,101 | | 5,749 |
| Accounting/Audit Fees | 2,875 | | 2,950 | | 4,225 |
| Legal Fees | 19,481 | | 20,435 | | 3,655 |
| Insurance | 8,424 | | 11,845 | | 13,127 |
| Licenses | 3,553 | | 3,003 | | 5,328 |
| Equipment lease exp | 556 | | 335 | | 465 |
| Fixed equipment lease | | | 595,002 | | 1,190,004 |
| TOTAL | 397,454 | | 839,624 | | 1,371,933 |

54

PROJECTED DATA CHART -- MOLECULAR IMAGING ALLIANCE/LIFESCAN CARDIAC PET SERVICE

SUPPLEMENTAL

Give information for the two (2) years following the completion of this proposal.

The fiscal year begins in January.

2013 APR 29 PM 4 18

| | | Year 2014 | Year 2015 |
|----------------------------------------------|-----------------------------------|--------------|--------------|
| A. Utilization Data (PET scans) | | 808 | 889 |
| B. Revenue from Services to Patients | | | |
| 1. Inpatient Services | | \$ | \$ |
| 2. Outpatient Services | | 2,531,646 | 2,646,176 |
| 3. Emergency Services | | | |
| 4. Other Operating Revenue (Specify) | | | |
| | Gross Operating Revenue | \$ 2,531,646 | \$ 2,646,176 |
| C. Deductions for Operating Revenue | | | |
| 1. Contractual Adjustments | | \$ 1,077,318 | \$ 1,078,051 |
| 2. Provision for Charity Care 3% | | 75,949 | 79,385 |
| 3. Provisions for Bad Debt 1% | | 25,316 | 26,461 |
| | Total Deductions | \$ 1,178,583 | \$ 1,183,897 |
| NET OPERATING REVENUE | | \$ 1,353,063 | \$ 1,462,279 |
| D. Operating Expenses | | | |
| 1. Salaries and Wages | | \$ 179,628 | \$ 224,628 |
| 2. Physicians Salaries and Wages | | 45,600 | 45,600 |
| 3. Supplies | | 327,240 | 360,045 |
| 4. Taxes | | 18,000 | 20,400 |
| 5. Depreciation | | 81,816 | 72,816 |
| 6. Rent | | 28,380 | 28,380 |
| 7. Interest, other than Capital | | | |
| 8. Management Fees | | | |
| a. Fees to Affiliates | | | |
| b. Fees to Non-Affiliates | | | |
| 9. Other Expenses (Specify) See notes | | 442,558 | 474,756 |
| | Total Operating Expenses | \$ 1,123,222 | \$ 1,226,625 |
| E. Other Revenue (Expenses) -- Net (Specify) | | \$ | \$ |
| NET OPERATING INCOME (LOSS) | | \$ 229,841 | \$ 235,654 |
| F. Capital Expenditures | | | |
| 1. Retirement of Principal | | \$ 15,393 | \$ 16,342 |
| 2. Interest | | 11,851 | 10,902 |
| | Total Capital Expenditures | \$ 27,244 | \$ 27,244 |
| NET OPERATING INCOME (LOSS) | | | |
| LESS CAPITAL EXPENDITURES | | \$ 202,597 | \$ 208,410 |

NOTES TO OTHER EXPENSES (D9)

| | <u>CY2014</u> | <u>CY2015</u> |
|-------------------------|---------------|---------------|
| Employee benefits | 8,874 | 13,320 |
| General office supplies | 10,551 | 12,000 |
| Advertising Bus dev | 6,000 | 6,000 |
| Utilities | 24,311 | 25,000 |
| Service repairs | 18,400 | 24,400 |
| Insurance and Lice | 18,000 | 18,000 |
| Equip Lease | 144,000 | 144,000 |
| Billing fee | 43,630 | 47,044 |
| Professional Fees | 161,592 | 177,792 |
| Legal | <u>7,200</u> | <u>7,200</u> |
| TOTAL | 442,558 | 474,756 |

C(II).5. PLEASE IDENTIFY THE PROJECT'S AVERAGE GROSS CHARGE, AVERAGE DEDUCTION FROM OPERATING REVENUE, AND AVERAGE NET CHARGE.

| Table Nine : Average Charges, Deductions, and Net Charges Molecular Imaging Alliance, Johnson City | | |
|---------------------------------------------------------------------------------------------------------------|---------------|---------------|
| | CY2014 | CY2015 |
| Procedures | 808 | 889 |
| Average Gross Charge Per Procedure | \$3,133 | \$2,977 |
| Average Deduction Per Procedure | \$1,458 | \$1,332 |
| Average Net Charge (Net Operating Revenue) Per Procedure | \$1,675 | \$1,645 |
| Average Net Operating Income Per Procedure After Capital Expenditures | \$284 | \$265 |

C(II).6.A. PLEASE PROVIDE THE CURRENT AND PROPOSED CHARGE SCHEDULES FOR THE PROPOSAL. DISCUSS ANY ADJUSTMENT TO CURRENT CHARGES THAT WILL RESULT FROM THE IMPLEMENTATION OF THE PROPOSAL. ADDITIONALLY, DESCRIBE THE ANTICIPATED REVENUE FROM THE PROPOSED PROJECT AND THE IMPACT ON EXISTING PATIENT CHARGES.

For current and proposed charges, please see C(II).6.B below. Because this project involves a single-service provider (PET scanning), there are no other types of charges that could be impacted by the project. As for the project's impact on this existing service's charges, the Projected Data Chart shows that the applicant will be maintaining approximately the same net operating revenue per procedure (amount actually received from payors after deductions) as the prior owner experienced. See Table Nine in response C(II).6.B below.

C(II).6.B. COMPARE THE PROPOSED CHARGES TO THOSE OF SIMILAR FACILITIES IN THE SERVICE AREA/ADJOINING SERVICE AREAS, OR TO PROPOSED CHARGES OF PROJECTS RECENTLY APPROVED BY THE HSDA. IF APPLICABLE, COMPARE THE PROJECTED CHARGES OF THE PROJECT TO THE CURRENT MEDICARE ALLOWABLE FEE SCHEDULE BY COMMON PROCEDURE TERMINOLOGY (CPT) CODE(S).

There is no other cardiac PET facility in upper East Tennessee, to which this project's charges can be compared. Table Ten below compares this facility's recent and projected charges and the projected charges of Wellmont Cardiac Services' proposed cardiac PET service in Kingsport (a companion application to this application).

The projected average gross charge for this ODC in 2014 in Johnson City is projected to be higher than at the Gray location in CY2012. However, the ODC's projected average net operating revenue (receipts), which are its impact on payors, will be lower.

| Table Ten: Comparative Gross Charges Per Cardiac PET Scan | |
|------------------------------------------------------------------|-------------------------------------|
| Provider | Average Gross / Net Revenue |
| Molecular Imaging Alliance, Gray | 2012: \$1,764 / \$1,764 |
| WCS at The Heart Center, Kingsport | Proposed, CY2014: \$3,678 / \$1,140 |
| Molecular Imaging Alliance, Johnson City | Proposed, CY2014: \$3,133 / \$1,675 |

Source: LifeScan records; Applicant's Projected Data Chart, this application.

The following page contains Table Eleven, a chart showing the most frequent procedures to be performed, with their current Medicare reimbursement, and their projected Years One and Two utilization and average gross charges.

| Table Eleven: Molecular Imaging Alliance Cardiac PET Service Charge Data for Most Frequent Procedures | | | | | | | | | |
|----------------------------------------------------------------------------------------------------------|-------------------------------|----------------------------------|----------------------|----------|----------|-------------|--------|--------|----|
| CPT or DRG | Descriptor | Current Medicare Allowable | Average Gross Charge | | | Utilization | | | |
| | | | Current | Year 1 | Year 2 | Current | Year 1 | Year 2 | |
| 78492 | PET MYOCARD PRF MUL RST/STRS | \$1,099 | 3,298.29 | 3,133.38 | 2,976.71 | 657 | 796 | 875 | 51 |
| 78459 | PET MYOCARDIAL IMAGING | \$1,082 | 3,244.80 | 3,082.56 | 2,928.43 | 10 | 11 | 12 | 8 |
| 78491 | PET MYOCARDIAL IMAGING SINGLE | \$1,083 | 3,248.46 | 3,086.04 | 2,931.74 | 1 | 1 | 2 | |
| A9526 | NITROGEN N-13 AMMONIA | *Invoice Total | 320.00 | 320.00 | 320.00 | 668 | 808 | 889 | |
| J2785 | LEXISCAN 0.1 MG | \$54 | 160.91 | 160.91 | 160.91 | 668 | 808 | 889 | |
| Source: Practice Management | | | | | | | | | |

*Per CAHABA - Invoice Total Required. \$160 each dose, 2 doses per patient = \$320

C(II).7. DISCUSS HOW PROJECTED UTILIZATION RATES WILL BE SUFFICIENT TO MAINTAIN COST-EFFECTIVENESS.

This ODC is currently operating with a positive cash flow and a rapid annual increase of utilization; its continued increases in utilization will be sufficient to ensure its long-term viability.

C(II).8. DISCUSS HOW FINANCIAL VIABILITY WILL BE ENSURED WITHIN TWO YEARS; AND DEMONSTRATE THE AVAILABILITY OF SUFFICIENT CASH FLOW UNTIL FINANCIAL VIABILITY IS MAINTAINED.

The applicant is an established provider with active reimbursement income, so mere relocation will not cause a cash flow issue.

C(II).9. DISCUSS THE PROJECT'S PARTICIPATION IN STATE AND FEDERAL REVENUE PROGRAMS, INCLUDING A DESCRIPTION OF THE EXTENT TO WHICH MEDICARE, TENNCARE/MEDICAID, AND MEDICALLY INDIGENT PATIENTS WILL BE SERVED BY THE PROJECT. IN ADDITION, REPORT THE ESTIMATED DOLLAR AMOUNT OF REVENUE AND PERCENTAGE OF TOTAL PROJECT REVENUE ANTICIPATED FROM EACH OF TENNCARE, MEDICARE, OR OTHER STATE AND FEDERAL SOURCES FOR THE PROPOSAL'S FIRST YEAR OF OPERATION.

Molecular Imaging Alliance participates in Medicare and contracts with all area TennCare MCO's and Virginia Medicaid. Its projected payor mix for this proposed new nuclear medicine service is the same as in CY2012: 55% Medicare and 4% TennCare/Medicaid. Indigent care is projected at 2% of gross revenues under the new ownership.

| Table : Medicare and TennCare/Medicaid Revenues, Year One | | |
|------------------------------------------------------------------|-----------------|--------------------------|
| | Medicare | TennCare/Medicaid |
| Gross Revenue | \$1,392,405 | \$101,266 |
| Percent of Gross Revenue | 55% | 4% |

C(II).10. PROVIDE COPIES OF THE BALANCE SHEET AND INCOME STATEMENT FROM THE MOST RECENT REPORTING PERIOD OF THE INSTITUTION, AND THE MOST RECENT AUDITED FINANCIAL STATEMENTS WITH ACCOMPANYING NOTES, IF APPLICABLE. FOR NEW PROJECTS, PROVIDE FINANCIAL INFORMATION FOR THE CORPORATION, PARTNERSHIP, OR PRINCIPAL PARTIES INVOLVED WITH THE PROJECT. COPIES MUST BE INSERTED AT THE END OF THE APPLICATION, IN THE CORRECT ALPHANUMERIC ORDER AND LABELED AS ATTACHMENT C, ECONOMIC FEASIBILITY--10.

These are provided as Attachment C, Economic Feasibility--10.

C(II)11. DESCRIBE ALL ALTERNATIVES TO THIS PROJECT WHICH WERE CONSIDERED AND DISCUSS THE ADVANTAGES AND DISADVANTAGES OF EACH ALTERNATIVE, INCLUDING BUT NOT LIMITED TO:

A. A DISCUSSION REGARDING THE AVAILABILITY OF LESS COSTLY, MORE EFFECTIVE, AND/OR MORE EFFICIENT ALTERNATIVE METHODS OF PROVIDING THE BENEFITS INTENDED BY THE PROPOSAL. IF DEVELOPMENT OF SUCH ALTERNATIVES IS NOT PRACTICABLE, THE APPLICANT SHOULD JUSTIFY WHY NOT, INCLUDING REASONS AS TO WHY THEY WERE REJECTED.

B. THE APPLICANT SHOULD DOCUMENT THAT CONSIDERATION HAS BEEN GIVEN TO ALTERNATIVES TO NEW CONSTRUCTION, E.G., MODERNIZATION OR SHARING ARRANGEMENTS. IT SHOULD BE DOCUMENTED THAT SUPERIOR ALTERNATIVES HAVE BEEN IMPLEMENTED TO THE MAXIMUM EXTENT PRACTICABLE.

A. The applicant knows of no less costly, more effective, or more efficient way to offer this service to its service area, than to pursue the proposed downsizing and relocation. The capital cost to move is less than the cost of a radiology room at a hospital. The relocation, into the heart of the largest medical services provider community in Washington County, provides better access for this ODC's patients and the physicians who supervise their cardiac PET scans. Reduced drive time enhances physician productivity. By making the service more accessible, the project will increase the use of cardiac PET scanning relative to SPECT studies, with all the attendant cost savings and diagnostic improvements that have been discussed earlier.

B. The project relies entirely on renovation and requires no new construction.

C(III).1. LIST ALL EXISTING HEALTH CARE PROVIDERS (I.E., HOSPITALS, NURSING HOMES, HOME CARE ORGANIZATIONS, ETC.) MANAGED CARE ORGANIZATIONS, ALLIANCES, AND/OR NETWORKS WITH WHICH THE APPLICANT CURRENTLY HAS OR PLANS TO HAVE CONTRACTUAL AND/OR WORKING RELATIONSHIPS, E.G., TRANSFER AGREEMENTS, CONTRACTUAL AGREEMENTS FOR HEALTH SERVICES.

If approved for the relocation, the applicant will seek a transfer agreement with MSHA's Johnson City Medical Center, which is less than one mile away along the same highway.

C(III).2. DESCRIBE THE POSITIVE AND/OR NEGATIVE EFFECTS OF THE PROPOSAL ON THE HEALTH CARE SYSTEM. PLEASE BE SURE TO DISCUSS ANY INSTANCES OF DUPLICATION OR COMPETITION ARISING FROM YOUR PROPOSAL, INCLUDING A DESCRIPTION OF THE EFFECT THE PROPOSAL WILL HAVE ON THE UTILIZATION RATES OF EXISTING PROVIDERS IN THE SERVICE AREA OF THE PROJECT.

Because the applicant is the only provider of fixed cardiac PET scanner equipment in Upper East Tennessee, and because this is a simple relocation within the same county and service area, it does not seem possible that the project would give rise to any competitive issues, or would duplicate existing technology.

C(III).3. PROVIDE THE CURRENT AND/OR ANTICIPATED STAFFING PATTERN FOR ALL EMPLOYEES PROVIDING PATIENT CARE FOR THE PROJECT. THIS CAN BE REPORTED USING FTE'S FOR THESE POSITIONS. IN ADDITION, PLEASE COMPARE THE CLINICAL STAFF SALARIES IN THE PROPOSAL TO PREVAILING WAGE PATTERNS IN THE SERVICE AREA AS PUBLISHED BY THE TENNESSEE DEPARTMENT OF LABOR & WORKFORCE DEVELOPMENT AND/OR OTHER DOCUMENTED SOURCES.

Please see the following page for Table Fourteen, projected FTE's and salary ranges.

The Department of Labor and Workforce Development website indicates the following annual salary information in the area, for clinical employees of the type to be employed in this project:

| Table Thirteen: TDOL Surveyed Average Salaries for the Service Area | | | | |
|----------------------------------------------------------------------------|--------------------|---------------|-------------|--------------------|
| Position | Entry Level | Median | Mean | Experienced |
| RN | \$40,450 | \$56,050 | \$57,870 | \$66,590 |
| Nuclear Med. Tech* | \$54,290 | \$59,210 | \$60,050 | \$62,940 |

**This position was not surveyed in the Johnson City region. Data here is for Kingsport area, the closest comparable market.*

APC April 24, 2013
2:02 pm

**Table Fourteen: ODC Staffing Requirements (Supplemental)
Molecular Imaging Alliance Cardiac PET ODC (Johnson City)**

| Position Type (RN, etc.) | Current FTE's | Year One FTE's | Year Two FTE's | Salary Range (Annual) | 2013 APR 24 PM 2 03 |
|------------------------------------------|------------------|-------------------|-------------------|-----------------------|---------------------|
| Clinical Director (Nuclear Med Tech) | 1.00 | 1.00 | 1.00 | \$60,000-\$70,000 | |
| RN | 1.00 | 1.00 | 1.00 | \$41,000-\$67,000 | |
| Nuclear Med Tech--contract Part-time | 0.25 | 0.33 | 1.00 | \$55,000-\$63,000 | |
| Clerical | 0.25 | 0.25 | 0.30 | \$20,000-\$27,000 | |
| Facility Supervision--contract Part-time | 0.25 | 0.50 | 0.50 | \$10,000-\$12,000 | |
| | | | | | |
| | | | | | |
| | | | | | |
| Total FTE's | 2.75 | 3.08 | 3.80 | | |

Source: ODC Management

C(III).4. DISCUSS THE AVAILABILITY OF AND ACCESSIBILITY TO HUMAN RESOURCES REQUIRED BY THE PROPOSAL, INCLUDING ADEQUATE PROFESSIONAL STAFF, AS PER THE DEPARTMENT OF HEALTH, THE DEPARTMENT OF MENTAL HEALTH AND DEVELOPMENTAL DISABILITIES, AND/OR THE DIVISION OF MENTAL RETARDATION SERVICES LICENSING REQUIREMENTS.

The project requires no additional staff.

C(III).5. VERIFY THAT THE APPLICANT HAS REVIEWED AND UNDERSTANDS THE LICENSING CERTIFICATION AS REQUIRED BY THE STATE OF TENNESSEE FOR MEDICAL/CLINICAL STAFF. THESE INCLUDE, WITHOUT LIMITATION, REGULATIONS CONCERNING PHYSICIAN SUPERVISION, CREDENTIALING, ADMISSIONS PRIVILEGES, QUALITY ASSURANCE POLICIES AND PROGRAMS, UTILIZATION REVIEW POLICIES AND PROGRAMS, RECORD KEEPING, AND STAFF EDUCATION.

The applicant so verifies. The applicant is familiar with ODC requirements, having had such a license for more than five years.

C(III).6. DISCUSS YOUR HEALTH CARE INSTITUTION'S PARTICIPATION IN THE TRAINING OF STUDENTS IN THE AREAS OF MEDICINE, NURSING, SOCIAL WORK, ETC. (I.E., INTERNSHIPS, RESIDENCIES, ETC.).

This small facility is not currently affiliated with any health professional training programs. Once it relocates to Johnson City, more convenient to such programs at ETSU and the College of Medicine, it would be open to such discussions.

C(III).7(a). PLEASE VERIFY, AS APPLICABLE, THAT THE APPLICANT HAS REVIEWED AND UNDERSTANDS THE LICENSURE REQUIREMENTS OF THE DEPARTMENT OF HEALTH, THE DEPARTMENT OF MENTAL HEALTH AND DEVELOPMENTAL DISABILITIES, THE DIVISION OF MENTAL RETARDATION SERVICES, AND/OR ANY APPLICABLE MEDICARE REQUIREMENTS.

The applicant so verifies.

C(III).7(b). PROVIDE THE NAME OF THE ENTITY FROM WHICH THE APPLICANT HAS RECEIVED OR WILL RECEIVE LICENSURE, CERTIFICATION, AND/OR ACCREDITATION

LICENSURE: Outpatient Diagnostic Center
from Tennessee Department of Health
Radioactive Materials License
from Tennessee Department of Environment
and Conservation

CERTIFICATION: Medicare Certification from CMS
TennCare Certification from TDH

ACCREDITATION: Intersocietal Commission on Accreditation

C(III).7(c). IF AN EXISTING INSTITUTION, PLEASE DESCRIBE THE CURRENT STANDING WITH ANY LICENSING, CERTIFYING, OR ACCREDITING AGENCY OR AGENCY.

The applicant is currently licensed in good standing by the Board for Licensing Health Care Facilities, certified for participation in Medicare and Medicaid/TennCare, and fully accredited for Positron Emission Tomography, by the Intersocietal Commission on Accreditation.

C(III).7(d). FOR EXISTING LICENSED PROVIDERS, DOCUMENT THAT ALL DEFICIENCIES (IF ANY) CITED IN THE LAST LICENSURE CERTIFICATION AND INSPECTION HAVE BEEN ADDRESSED THROUGH AN APPROVED PLAN OF CORRECTION. PLEASE INCLUDE A COPY OF THE MOST RECENT LICENSURE/CERTIFICATION INSPECTION WITH AN APPROVED PLAN OF CORRECTION.

They have been addressed. Copies of the most recent licensure inspection and plan of correction, and/or the most recent accreditation inspection, are provided in Attachment C, Orderly Development--7(C).

C(III)8. DOCUMENT AND EXPLAIN ANY FINAL ORDERS OR JUDGMENTS ENTERED IN ANY STATE OR COUNTRY BY A LICENSING AGENCY OR COURT AGAINST PROFESSIONAL LICENSES HELD BY THE APPLICANT OR ANY ENTITIES OR PERSONS WITH MORE THAN A 5% OWNERSHIP INTEREST IN THE APPLICANT. SUCH INFORMATION IS TO BE PROVIDED FOR LICENSES REGARDLESS OF WHETHER SUCH LICENSE IS CURRENTLY HELD.

None.

C(III)9. IDENTIFY AND EXPLAIN ANY FINAL CIVIL OR CRIMINAL JUDGMENTS FOR FRAUD OR THEFT AGAINST ANY PERSON OR ENTITY WITH MORE THAN A 5% OWNERSHIP INTEREST IN THE PROJECT.

None.

C(III)10. IF THE PROPOSAL IS APPROVED, PLEASE DISCUSS WHETHER THE APPLICANT WILL PROVIDE THE THSDA AND/OR THE REVIEWING AGENCY INFORMATION CONCERNING THE NUMBER OF PATIENTS TREATED, THE NUMBER AND TYPE OF PROCEDURES PERFORMED, AND OTHER DATA AS REQUIRED.

Yes. The applicant will provide the requested data consistent with Federal HIPAA requirements.

PROOF OF PUBLICATION

Attached.

DEVELOPMENT SCHEDULE

1. PLEASE COMPLETE THE PROJECT COMPLETION FORECAST CHART ON THE NEXT PAGE. IF THE PROJECT WILL BE COMPLETED IN MULTIPLE PHASES, PLEASE IDENTIFY THE ANTICIPATED COMPLETION DATE FOR EACH PHASE.

The Project Completion Forecast Chart is provided after this page.

2. IF THE RESPONSE TO THE PRECEDING QUESTION INDICATES THAT THE APPLICANT DOES NOT ANTICIPATE COMPLETING THE PROJECT WITHIN THE PERIOD OF VALIDITY AS DEFINED IN THE PRECEDING PARAGRAPH, PLEASE STATE BELOW ANY REQUEST FOR AN EXTENDED SCHEDULE AND DOCUMENT THE "GOOD CAUSE" FOR SUCH AN EXTENSION.

Not applicable. The applicant anticipates completing the project within the period of validity.

PROJECT COMPLETION FORECAST CHART

2013 APR 15 PM 3:03

Enter the Agency projected Initial Decision Date, as published in Rule 68-11-1609(c):

July 24, 2013

Assuming the CON decision becomes the final Agency action on that date, indicate the number of days from the above agency decision date to each phase of the completion forecast.

| PHASE | DAYS REQUIRED | Anticipated Date (MONTH /YEAR) |
|--------------------------------------------------|------------------|-----------------------------------|
| 1. Architectural & engineering contract signed | 6 | 8/13 |
| 2. Construction documents approved by TDH | 66 | 10/13 |
| 3. Construction contract signed | 72 | 10/13 |
| 4. Building permit secured | 74 | 10/13 |
| 5. Site preparation completed | na | na |
| 6. Building construction commenced | 81 | 10/13 |
| 7. Construction 40% complete | 105 | 10/13 |
| 8. Construction 80% complete | 121 | 11/13 |
| 9. Construction 100% complete | 126 | 12/13 |
| 10. * Issuance of license (if required) | 136 | 12/13 |
| 11. *Initiation of service | 166 | 1/14 |
| 12. Final architectural certification of payment | 256 | 4/14 |
| 13. Final Project Report Form (HF0055) | 316 | 6/14 |

*** For projects that do NOT involve construction or renovation: please complete items 10-11 only.**

Note: If litigation occurs, the completion forecast will be adjusted at the time of the final determination to reflect the actual issue date.

INDEX OF ATTACHMENTS

| | |
|------------------------------|----------------------------------------------------------------|
| A.4 | Ownership--Legal Entity and Organization Chart (if applicable) |
| A.6 | Site Control |
| B.II.E.3 | Major Medical Equipment--Vendor Quotations / Draft Leases |
| B.III. | Plot Plan |
| B.IV. | Floor Plan |
| C, Need--1.A.3. | Letters of Intent & Qualifications |
| C, Need--3 | Service Area Maps |
| C, Economic Feasibility--1 | Documentation of Construction Cost Estimate |
| C, Economic Feasibility--2 | Documentation of Availability of Funding |
| C, Economic Feasibility--10 | Financial Statements |
| C, Orderly Development--7(C) | TDH Inspection & Plan of Correction |
| Miscellaneous Information | |
| Support Letters | |

B.III.--Plot Plan

SITE PLAN

SCALE: 1" = 60'-0"

TOTAL PARKING
SPACES = 118

DEEDED
ACREAGE
= 2.41

LARK STREET

CLINCHFIELD STREET

NORTH STATE OF FRANKLIN ROAD

THIS DRAWING AS PREPARED BY CampbellWest Architects
SHALL BE USED FOR THE SPECIFIC IDENTIFIED PROJECT ONLY.
THIS DRAWING IS THE PROPERTY OF CampbellWest Architects
AND SHALL BE RETURNED PER THEIR REQUEST

| | |
|--------------|------------|
| issued | 04/11/2013 |
| drawn by | BVH |
| project no. | 00-00 |
| drawing name | SITE PLAN |
| C-1 | |

130 Regional Park Dr.
Kingsport, TN 37660
Phn (423) 349-7760
Fax (423) 349-7413
www.groinc.com

**Cain
Rash
West**
Architects

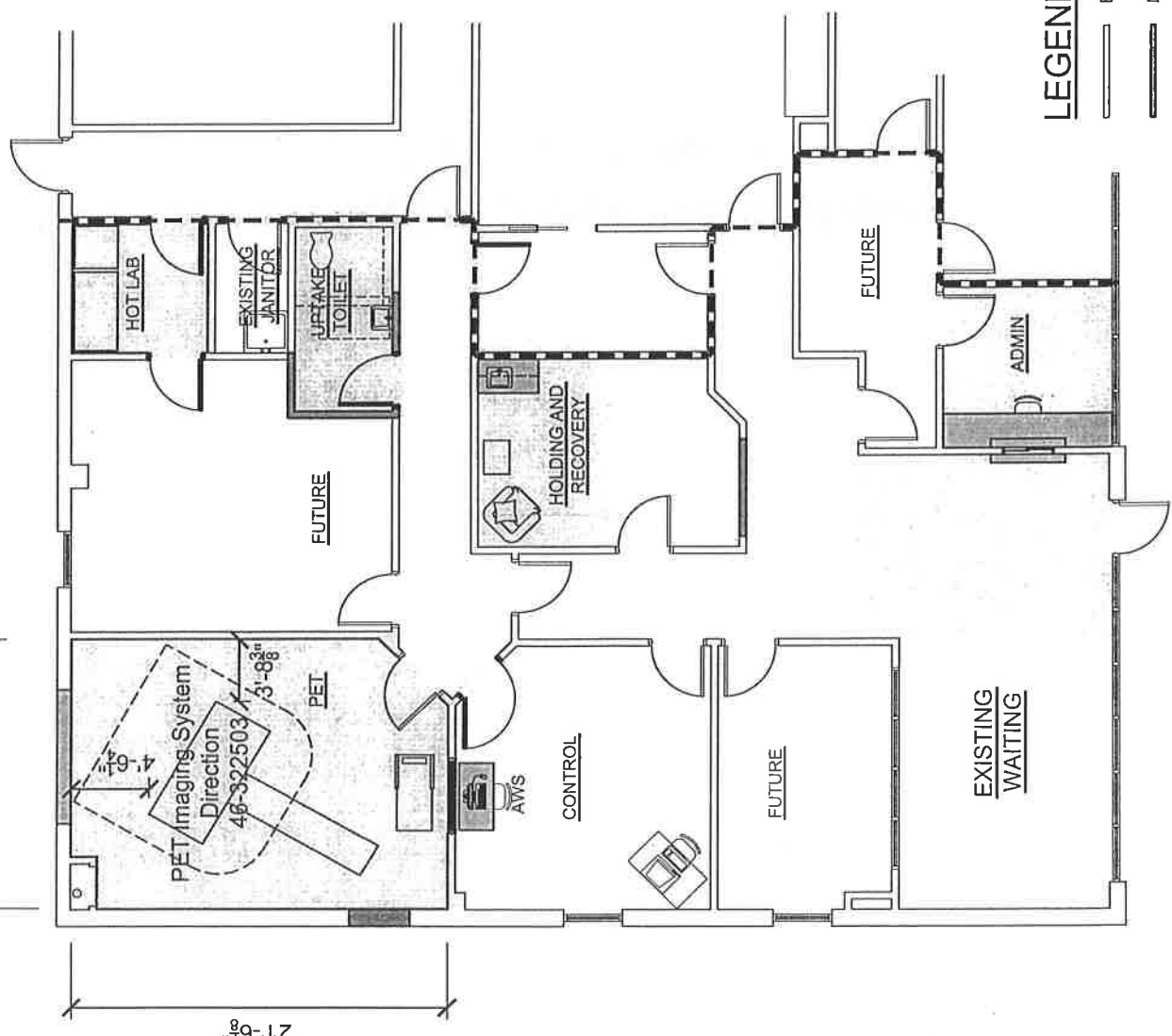
Architectural
Services

MOLECULAR IMAGING CENTER
FOR:
LIFESCAN OF TENNESSEE

701 N. STATE OF FRANKLIN ROAD, SUITE 1
JOHNSON CITY, TENNESSEE

B.IV.--Floor Plan

16'-0 1/2"
21'-6 7/8"



LEGEND

- EXISTING CONSTRUCTION
- NEW WALL
- ONE HOUR RATED SEPARATION WALL
- RENOVATED AREA = 847 SQ. FT.

SCHEMATIC PLAN

SCALE: 3/32" = 1'-0"

THIS DRAWING AS PREPARED BY CainRashWest Architects SHALL BE USED FOR THE SPECIFIC IDENTIFIED PROJECT ONLY. THIS DRAWING IS THE PROPERTY OF CainRashWest Architects AND SHALL BE RETURNED PER THEIR REQUEST.

MOLECULAR IMAGING CENTER
FOR:
LIFESCAN OF TENNESSEE
701 N. STATE OF FRANKLIN ROAD, SUITE 1
JOHNSON CITY, TENNESSEE

Architectural Services
Cain Rash West Architects
130 Regional Park Dr.
Kingsport, TN 37660
Phn (423) 349-7760
Fax (423) 349-7413
www.grainc.com

| | |
|--------------|----------------|
| issued | 04/03/2013 |
| drawn by | BVH |
| project no. | 201336 |
| drawing name | SCHEMATIC PLAN |
| A-1 | |

C, Need--1.A.3.e.
Letters of Intent & Qualifications



Precision Nuclear, LLC

April 15, 2013

Rob Gregory
Lifescan, TN
830 Suncrest Drive, Suite 2
Gray, TN 37615

Dear Mr. Gregory:

This letter is to confirm the ability and willingness of Precision Nuclear, LLC to supply your PET imaging system and the PET imaging system at CVA Heart Institute with unit dose $[N13]NH_3$ Ammonia for cardiac PET perfusion imaging for the calendar years of 2013 and 2014 at their proposed locations in Johnson City and Kingsport, Tennessee, should their relocation from the existing location in Gray, Tennessee, be approved by the State of Tennessee. If you have any questions or concerns, please do not hesitate to contact me directly.

Sincerely,

Alan W. Arp, Pharm.D.
President, Precision Nuclear, LLC

EQUIPMENT RENTAL TERMS AND CONDITIONS

THIS AGREEMENT made and entered into on this the 1st day of January, 2013, by and between LIFESCAN, TN, LLC, a Tennessee limited liability company, hereinafter "Lessor", and LIFESCAN LEASING, LLC, a Delaware limited liability company, hereinafter "Lessee".

WITNESSETH:

WHEREAS, Lessor owns a GE Advance NXi PET camera, hereinafter "Equipment"; and,

WHEREAS, Lessee desires to lease said Equipment.

THEREFORE, Lessor and Lessee have agreed to the following terms:

1. INITIAL RENTAL TERM AND EXTENSIONS:

(a) INITIAL TERM: This Agreement shall commence on the 1st day of January, 2013 and expire December 31, 2013, or when Lessee ceases use of the Equipment pursuant to a notification to Lessor, whichever is longer, unless a "Rental Agreement Extension" is executed, all Lessee's rights to possess and use the Equipment shall immediately cease at the end of the Term, at which time Lessor may turn off the Equipment or remove it from the Site. Lessee acknowledges its responsibility to pay for services for entire period of the initial term and subsequent extensions.

b) TERM EXTENSIONS: Term extensions must be requested by Lessee prior to the end of the existing Term. The request must specify the dates of the requested extension. The extension shall be in force once Lessee signs and returns a "Rental Agreement Extension" from Lessor. All terms and conditions of this Agreement shall remain in force during the term of the extension, except as specified in the "Rental Agreement Extension," which may include adjustments in monthly rental payments based upon utilization of Equipment.

2. PAYMENT OF RENTAL CHARGES: Lessee shall pay \$12,000.00 per month for exclusive use of the Equipment and will be billed for rental fees at the end of each calendar month. Payment is due within 30 days of the due date printed on the invoice. A late fee of 1.0% per month may be levied on unpaid balances over 30 days past the due date. Rental charges will be payable to Lessor at 701 N State of Franklin Rd Ste 2 Johnson City, TN

3. TRANSPORTATION, RISK OF LOSS, REMOVAL:

(a) Lessor shall deliver equipment to Lessee at Lessee's facilities at 701 N. State of Franklin, Suite ___, Johnson City, Tennessee. Lessor is responsible for transportation and risk of loss until the Equipment is installed at the Site. Lessee assumes responsibility for risk of loss when the equipment is installed at the site during the Term.

(b) Title to the Equipment will remain in Lessor free and clear of any lien or encumbrance of anyone other than Lessor, subject only to Lessee's right to peaceful possession and use during the Term. Lessee agrees that the Equipment will remain personal property regardless of how it is

attached to real property. Lessor may have unrestricted access to the Equipment at all reasonable times, during the Term in order to maintain it.

(c) At the end of the Term, Lessor will remove and return the Equipment at Lessor's expense including the cost of all transportation. At no time shall Lessee allow the Equipment to be permanently attached to Lessee's Site. If Lessee makes modifications to the Site or its ingress and egress which impedes the removal of the Equipment after it has been installed, the costs of removing the impediments, restoring the Site and delaying the start of the next scheduled interim rental, if applicable, will be at Lessee's expense.

(d) Lessee will return the Equipment in the same condition and appearance as when received by Lessor (reasonable wear and tear excepted), in good working order and condition and free of any bio-hazardous materials. Lessee may be billed up to \$500.00, when necessary, for removal of excessive waste and/or bio-hazardous material or patient information per the HIPAA guidelines.

4. MAINTENANCE AND REPAIR SERVICES: Lessor shall provide maintenance and repair services to the imaging system through a service contract with the Original Equipment Manufacturer (hereinafter "OEM"). The OEM or its designated affiliates will provide certain services specifically described in this section to the Equipment, within the applicable service coverage hours of OEM's standard workweek.

(a) **SPECIAL SERVICE CONDITIONS:** Subject to the availability of personnel, OEM will provide, at Lessee's request and additional expense (purchase order required), service outside the OEM's standard coverage hours. The charge for service rendered during this time will be the OEM's standard overtime rate then in effect for service contract customers with this type of Equipment including round trip travel time.

(b) **PREVENTATIVE MAINTENANCE:**

Preventative Maintenance Service is required periodically during normal business hours of 8:00 a.m. to 5:00 p.m. During the Term of this Agreement Lessee will make the equipment available for Preventative Maintenance, at mutually agreed upon time and date, and according to OEM requests.

5. LESSOR'S/LESSEE'S RESPONSIBILITIES:

(a) Lessor shall provide appropriate instruction manuals for the operation of the system. Lessee is responsible for providing competent personnel to operate the system. Any damage or loss resulting from operation of the system not in accordance with the instruction manuals shall be borne by Lessee.

(b) Lessor shall provide Lessee a complete set of site specifications and applicable manuals. Lessee is responsible for all site preparations in accordance with Lessee's site planning specifications.

(c) Lessee is responsible for proper screening of patients. Lessee is fully responsible for controlling access to the Equipment, and for all operations and protocols which use the Equipment or are conducted at the Site.

(d) Lessee is responsible for operating the system according to the prevailing guidelines regarding ionizing radiation and providing radiation protection to patients, as required.

(e) Lessee will provide and maintain a working phone line at the Site for Lessor's use of remote diagnostics from OEM.

(f) Lessor shall provide to Lessee a list of specifications for operation of the system. Lessee will maintain the Site and environment (including temperature and humidity control, incoming power quality, and fire protection system) in accordance with such specifications.

(g) Lessee is responsible for maintaining patient records in compliance with HIPAA guidelines. All images and patient records shall be transferred to Lessee prior to termination of this Agreement. Lessor shall not be responsible for residual patient records that reside on the system at termination of service.

6. EXCLUSIONS FROM SERVICES: OEM's maintenance and repair obligations do not cover conditions caused by:

(i) Lessee's failure to fulfill the responsibilities above;

(ii) Lessee's combining the Equipment with a product of others or with an incompatible product of OEM without Company's prior approval;

(iii) Any alteration or improper storage, handling, use or maintenance of any part of the Equipment by anyone other than OEM or its service contractor;

(iv) Anything external to the Equipment, including building structural deficiency, power surge, fluctuation or failure, and air conditioning failure.

7. OPERATING INSTRUCTION AND APPLICATION TRAINING: Lessee is responsible for operating the system properly. This Agreement does not provide for onsite applications training and the cost for such applications training, as may be requested by Lessee, shall be borne by Lessee.

8. TAXES AND PERMITS:

(a) Lessee shall also be responsible for any taxes and fees due, imposed, assessed or levied against Lessor or Lessee (or any rents or receipts hereunder), by any governmental entity or taxing authority during or related to the Term of this Agreement, including, without limitation, all license and registration fees, permits, duties and charges, together with any penalties, fines or interest thereon (collectively "Taxes"), but excluding any taxes on Lessor's revenues.

(b) Lessee is responsible for obtaining all permits, licenses and certifications necessary for siting and operating the Equipment. Lessor shall not be responsible for any penalties or sanctions levied against Lessee for its failure to obtain permits. Lessee's obligation to pay Lessor in

accordance with this Agreement shall not be dependent upon Lessee's ability to obtain permits, collect accounts receivable or any other reason.

9. DELIVERY, USE AND OPERATION:

(a) Lessee agrees that the Equipment will be used by Lessee solely in the conduct of its business and in a manner complying with all applicable laws, regulations and insurance policies.

(b) Except in the event of an emergency, Lessee will not move any equipment from the Site without prior notice to Lessor.

(c) Lessee will keep the Equipment free and clear of all liens and encumbrances other than those which result from acts of Lessor.

(d) Lessor will not attach or install anything on any Equipment that will impair the originally intended function or use of such Equipment without the prior written consent of Lessee. All additions, parts, supplies, accessories, and equipment ("Additions") furnished or attached to any Equipment that are not readily removable shall become the property of Lessor.

(e) Lessee shall insure that all coils, phantoms, manuals, monitors and other removable items shall be properly stowed and returned upon surrender of the Equipment. Lessee shall be responsible for replacing all lost or missing items.

10. EXCLUSION FROM FEDERAL HEALTHCARE PROGRAMS: Lessor acknowledges that it is not, and has not been, suspended, excluded, barred or sanctioned by Medicare or any other state or federal healthcare program, nor has Lessor, nor to its knowledge, its employees or agents providing performance hereunder, ever been convicted of a criminal offense related to healthcare. Lessor shall notify Lessee promptly if any such action is proposed or taken against Lessor, or if Lessor becomes aware that such action has been taken against its employees or agents, or if Lessor becomes aware that it or its employees or agents, is the subject of an investigation that could lead to such action.

11. INSURANCE: Lessee agrees at its own expense, to keep the Equipment insured with companies acceptable to Lessor for such amounts and against such hazards as Lessor may require, including, but not limited to, all risk physical damage insurance for the Equipment itself, with losses under the policies payable to Lessor or its assigns, if any, and liability coverage for personal injuries, death and/or property damages on terms satisfactory to Lessor during the entire period the equipment is installed at the site. Said liability insurance shall be in an amount specified by Lessor, but not less than two million dollars (\$2,000,000.00). Property insurance shall be in an amount not less than (\$1,000,000.00) or such other amount that Lessor shall specify. Lessee may meet the insurance requirements of this paragraph 10 through its program of self-insurance, if existing.

12. SOFTWARE LIMITED LICENSE: Lessee agrees to comply with any "Licensed Software" Agreements between Lessor and the OEM'S, a copy of which may be found in the Operating Manuals of the system or requested from Lessor. Lessee acknowledges that the operating

software on the system is proprietary and may not be copied, duplicated or dispersed without the appropriate written notification and permission from the OEM.

13. DEFAULT AND REMEDIES:

(a) Lessor may in writing declare this Agreement in default if: (i) Lessee breaches its obligation to pay rental charges or any other sum when due and fails to cure the breach within ten days after receipt of written notice from Lessee; (ii) Lessee breaches any of its insurance obligations under this Agreement; (iii) Lessee breaches any of its other obligations and fails to cure that breach within 30 days after written notice from Lessor; (iv) any representation or warranty made by Lessee in connection with this Agreement shall be false or misleading in any material respect; (v) Lessee or any guarantor or other obligor for Lessee's obligations hereunder ("Guarantor") becomes insolvent or ceases to do business as a going concern; (vi) Lessee assigns any of its interests in this Agreement or in the Equipment without Lessor's prior consent; (vii) if Lessee or any Guarantor is a natural person, any death or incompetency of Lessee or such Guarantor; (viii) a petition is filed by or against Lessee or any Guarantor under any bankruptcy or insolvency laws and in the event of an involuntary petition, the petition is not dismissed within 45 days of the filing date; or (ix) any material adverse change occurs in Lessee's financial condition or business operations (or of any Guarantor) or any material change occurs in the ownership of Lessee.

(b) Upon the occurrence of an event of default hereunder, Lessor shall have the option to do one or more of the following: (i) declare the aggregate rental charges payable under this Agreement immediately due and payable; (ii) declare all other amount(s) due Lessor hereunder immediately due and payable; (iii) collect from Lessee, on all monies due but unpaid for more than ten days, a late charge of 5.0% (five percent) each month until paid, and in addition to, the amount of all such monies, but not exceeding the lawful maximum; (iv) take possession of the Equipment and remove same from its existing location(s) with notice to Lessee; and (v) assert any other remedies available to Lessor at law or in equity (including, without limitation, under the Uniform Commercial Code). Any return and/or repossession of the Equipment shall not waive or impair any of Lessor's rights or remedies. Except as otherwise provided for herein or by law, all amount(s) due Lessor after an event of default shall be due and payable without regard to any action taken by Lessor regarding the Equipment.

(c) The foregoing remedies are cumulative, and any or all thereof may be exercised instead of or in addition to each other or any remedies at law, in equity, or under statute. Lessee shall pay Lessor's reasonable attorney's fees and other costs and expenses incurred in connection with the enforcement, assertion, defense or preservation of Lessor's rights and remedies under this Agreement, or if prohibited by law, such lesser sum as may be permitted, if Lessor is the prevailing party in any such claim.

14. LIMITATION OF REMEDIES AND DAMAGES: Lessor's liability for actual, proven damages in connection with this Agreement, whether arising under contract, tort, or any other theory of law, will not in the aggregate exceed an amount equal to Lessee's actual direct damages. In no event will Lessor be liable for any consequential, special, indirect, incidental, or punitive loss, damage, or expense. Lessee will be barred from any remedy unless Lessee gives Lessor prompt written notice of the problem. Any claim related to this contract will be covered solely by commercial legal principles. Lessor, its representatives and Lessee will not have any

negligence or other tort liability to the other arising from this Agreement. This limitation does not affect claims by third parties for personal injury due to Lessor's, its representatives or Lessee's negligence or product liability.

15. EXCUSABLE DELAYS AND PERFORMANCE ISSUES: Neither party is liable for delays or failures in performance of any obligations under this Agreement, other than payment obligations, due to a cause beyond its reasonable control.

16. MISCELLANEOUS:

(a) LESSOR AND LESSEE UNCONDITIONALLY WAIVE THEIR RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF THIS AGREEMENT, ANY OF THE RELATED DOCUMENTS, ANY DEALINGS BETWEEN LESSOR OR LESSEE RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION OR ANY RELATED TRANSACTIONS, AND/OR THE RELATIONSHIP THAT IS BEING ESTABLISHED BETWEEN LESSOR AND LESSEE. THE SCOPE OF THIS WAIVER IS INTENDED TO BE ALL ENCOMPASSING OF ANY AND ALL DISPUTES THAT MAY BE FILED IN ANY COURT. THIS WAIVER IS IRREVOCABLE.

(b) Time is of the essence of this Agreement. Either party's failure at any time to require strict performance by the other of any of the provisions hereof shall not waive or diminish such party's right at any other time to demand strict compliance with this Agreement. This Agreement hereto constitutes the entire Agreement of the parties with respect to the subject matter hereof. No prior proposals, statements, course of dealing or usage of trade will be a part of this Agreement. NO VARIATION OR MODIFICATION OF THIS AGREEMENT OR ANY WAIVER OF ANY OF ITS PROVISIONS OR CONDITIONS, SHALL BE VALID UNLESS IN WRITING AND SIGNED BY AN AUTHORIZED REPRESENTATIVE OF THE PARTIES HERETO.

(c) THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL IN ALL RESPECTS BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF TENNESSEE (WITHOUT REGARD TO THE CONFLICT OF LAWS PRINCIPLES OF SUCH STATE), INCLUDING ALL MATTERS OF CONSTRUCTION, VALIDITY AND PERFORMANCE, REGARDLESS OF THE LOCATION OF THE EQUIPMENT.

(d) Any cancellation or termination by Lessee, pursuant to the provisions of this Agreement or amendment hereto of the rental of any Equipment hereunder, shall not release Lessee from any then outstanding obligations to Lessor hereunder.

This Agreement constitutes the entire agreement between Lessor and Lessee, and may not be modified or amended except by a written instrument signed by both parties.

IN WITNESS WHEREOF, the parties have caused this Lease agreement to be executed by their duly authorized officers on the 24 day of December, 2012.

LIFESCAN, TN, LLC

LESSOR:

By: 

Title: Owner

LIFESCAN LEASING, LLC
LESSEE

By: 

Title: Member

Jeffrey W. Schoondyke MD, MPH, FACC, CCDS

212 Highland Gate Dr.
 Johnson City, TN 37601
 (H) 423-753-6655
J3schoondyke@yahoo.com

Biographical Data

Birthplace: Rock Island, Illinois (12/31/1968)

Marital Status: Married

Spouse Name: Jennifer Schoondyke

Children: Jeffrey, Age 15

Kathryn, Age 13

Kari Elizabeth, 7 months

| <u>Education/Employment History</u> | <u>Degree</u> | <u>Dates of Attendance</u> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|-----------------------------------|
| • Northern Arizona University Flagstaff, AZ | BS | 8/87-5/92 |
| • University of Oklahoma Oklahoma City, OK | MPH | 8/92-5/95 |
| • St. George's University School of Medicine Grenada, West Indies | MD | 8/95-5/99 |
| • East Tennessee State University Department of Internal Medicine Residency Program Johnson City, TN 37614 | | 7/99-6/02 |
| • Cardiology Fellowship East Tennessee State University Department of Cardiology Johnson City, TN 37614 | | 7/02-6/05 |
| • Johnson City Emergency Physicians- Contract ER Physician Johnson City Medical Center VAMC Mountain Home Tennessee Johnson County Medical Center | | 7/02-6/05 |
| • Bristol Consultants, PC Bristol Regional Medical Center Bristol, TN | | 2/04-6/05 |
| • Halifax Heart Center, PC Boston, VA Cardiologist | | 7/05-5/06 |
| • Mountain States Medical Group Formerly Heart & Vascular Johnson City, TN Cardiologist | | 6/06-2/11 |

- Karing Hearts Cardiology, PLLC
Johnson City, TN
Cardiologist 3/2011-Present

Academic Appointments

6/06-present

- East Tennessee State University
Associate Professor of Medicine/Cardiology
James H. Quillen College of Medicine Johnson City, TN

Licensure and Boards

Date of Examination

- | | |
|----------------------------------------------|---------|
| • Board Certified Internal Medicine | 8/2002 |
| • Board Certified Cardiovascular Disease | 11/2005 |
| • Heart Rhythm/NASPE Certified- CCDS | 9/2007 |
| • Tennessee Medical License #36563 | |
| • Virginia Medical License #0101237133 | |
| • North Carolina Medical License #2005-01437 | |
| • Current DEA Registration #BS7825790 | |

Professional Memberships

- American College of Cardiology
- American Board of Internal Medicine
- Heart Rhythm Society
- Tennessee Medical Society

Cardiovascular Skill Set

- Diagnostic Left and Right Cardiac Catheterization
- Trans-Esophageal Echocardiography
- Trans-Thoracic Echocardiography
- SPECT Perfusion Imaging Interpretation
- Cardiac PET Scanning
- DC Cardioversion
- Permanent Pacemaker Insertion
- Bi-Ventricular ICD/Pacemaker Insertion
- ICD Insertion
- IABP Insertion
- Pericardiocentesis

Presentations

- **Schoondyke Jeffrey W., MD, MPH; Fitzpatrick Oney, D., Ph.D.** Sexual Attitudes and Behaviors for a New Generation: Are They Really Changing? Slide Presentation at the Rocky Mountain Psychological Association Conference. Denver, Colorado. 1991.
- Mohan Rajesh, M.D.; Kelly Jim, Ph.D.; Ponder Michael, M.D.; **Schoondyke Jeffrey W., M.D., MPH;** Douglas John E., M.D. Fosinopril Induced Hepatotoxicity- Review of the literature and description of the first case in humans. 2001 International Experimental Biology Meeting. April 4, 2001, Orlando, FL.

- **Schoondyke Jeffrey W., MD, MPH;** Mohan Rajesh, MD; Appakondur Sirinivasa, MD; Sandhu Dalpinder, MD; Downs Chris, MD; Bala Chidambaram, M.D.; Ponder Michael, MD, FACC. Elevated Troponin-I in a Patient With Acute Pulmonary Embolism Without Evidence of Coronary Artery Disease - A review of the literature and description of a case presenting with chest pain, acute onset shortness of breath and hypoxia. 2001 International Experimental Biology Meeting, April 4, 2001. Orlando, FL.
- **Schoondyke Jeffrey W., MD, MPH;** Baha Shabaneah, MD; Jack Whitaker, MD. Papillary Fibroelastoma of the left ventricle. Southern Medical Association National Meeting. November, 2002.
- **Schoondyke, Jeffrey W., MD, MPH.** 7th Annual Nurse Practitioner/Physician Assistant Conference for Primary Care. CHF Lecture Incorporating the New ACC Guidelines. April 1, 2003.
- **Schoondyke, Jeffrey, W. MD, MPH.** CHF Update. *Medical College of Georgia* Grand Rounds. May 2003.
- **Schoondyke, Jeffrey W. MD, MPH, FACC** Mended Hearts Monthly Meeting 3-09.
- **Schoondyke, Jeffrey W. MD, MPH, FACC.** Keynote Speaker, Mended Little Hearts Inaugural Chapter Meeting. Niswonger Children's Hospital, April 23, 2009.
- **Schoondyke, Jeffrey W. MD, MPH, FACC.** ETSU College of Medicine Annual Cardiovascular CME New Horizons Symposium. Post MI Care: An Update for Primary Care Physicians. May 2, 2009.
- **Schoondyke, Jeffrey W. MD, MPH, FACC, CCDS.** ETSU College of Medicine Annual Cardiovascular CME New Horizons Symposium. Progress in Stress Testing and Nuclear Imaging. January 25, 2013.

Research & Publications

- **Schoondyke Jeffrey W., MD, MPH;** Fitzpatrick Oney, D., Ph.D. Sexual Attitudes and Behaviors for A New Generation: Are They Really Changing? *College Student Behavior*, 1991.
- Oklahoma State Department of Health. Primary prevention for reducing firearm related morbidity and mortality. Research data collected for state health department. 1994-1995.
- Simms, J. Paul, PhD.; **Schoondyke Jeffrey, W., MD, MPH.** Use of a Personal Digital Assistant (PDA) to Monitor Vital Patient Functions in a Medical-Evacuation setting.
- **Schoondyke Jeffrey W., MD, MPH;** Hubbs Doris, MD; Ridgeway Nathan, MD, FACP. Preventable Rhabdomyolysis in Prison Inmates. *Journal of the Tennessee Medical Association*. Sept. 2001. Vol. 94. No. 9. 337-338.
- **Schoondyke Jeffrey W., MD, MPH;** Mohan Rajesh, MD; Appakondur Sirinivasa, MD; Sandhu Dalpinder, MD; Downs Chris, MD; Ponder Michael, MD, FACC. Elevated Troponin-I in a Patient With Acute Pulmonary Embolism Without Evidence of Coronary Artery Disease - Review of the literature and description of a case presenting with chest pain, acute onset shortness of breath and hypoxia. *Journal of the Tennessee Medical Association*, April 2002.
- **Schoondyke Jeffrey W., MD, MPH.** Fosinopril Induced Hepatotoxicity in a Complex Medical Patient. *Journal of the Tennessee Medical Association* May 2002.
- **Schoondyke, Jeffrey W., MD, MPH;** Burrell, Jonathan, DO.; Shabaneah, Baha, MD; Fahrig, Stephen A. MD; Whitaker, Jack, MD. Papillary Fibroelastoma involving the Left Ventricular Wall. *Cardiovascular Reviews*, 2003.

- Abi-Saleh B, Isakandar SB, **Schoondyke JW**, Fahrig, S. Tako-tsubo syndrome as a consequence of transient ischemic attack. *Rev Cardiovasc Med*. 2006 Winter;7(1):37-41. PMID: 1653449eb
- Mechleb BK, Kasasbeh ES, Isakandar SB, **Schoondyke JW**, Garcia ID. Mitral Valve Prolapse: Relationship of echocardiography characteristics to natural history. *Echocardiography*. 2006 May;23(5):434-437. PMID: 16686634
- Abi-Saleh B, **Schoondyke JW**, Abboud L, Downs CJ, Haddadin TZ, Isakandar SB. Tricuspid valve involvement in carcinoid disease. *Echocardiography*. 2007 Apr;24(4):439-442. PMID:17381657
- **Schoondyke, Jeffrey W., MD, MPH, FACC**; Kari's Story- Daddy's Little Girl. *Voice Magazine for Women*. June 2009 p.5-6.
- **Schoondyke, Jeffrey W., MD, MPH, FACC**; Physician Spotlight. *East Tennessee Medical News*. June 2009. Pg 5-9.
- **Schoondyke, Jeffrey W., MD, MPH, FACC**; Physician to Physician: Patients versus Process. *East Tennessee Medical News*. February, 2010.

Clinical Trial Research

- Principle Investigator- CURRENT Trial 2007
- Sub-PI Timi 48 Trial 2008-2009
- Medtronic Optivol Trial 5/2009
- PI Novartis LCZ 676 Clinical Trial 3/1010

Speakers Bureau

- Boehringer Ingelheim Pharmaceuticals 2007
- Pfizer Pharmaceuticals Since 2004
- Medtronic 2007
- Molecular Imaging Alliance 2010

Honors and Scholarship

- Dean's List- Northern Arizona University, 1989-1992.
- Annual Undergraduate Research Award – Northern Arizona University 1992.
- Outstanding Psychology Student- Northern Arizona University 1992.
- Dean's List- St. George's University School of Medicine 1996-99.
- Chief Resident- Johnson City Medical Center. East Tennessee State University, Dept of Internal Medicine. 2001-2002.
- Chief of Chief Residents- East Tennessee State University College of Medicine. 2001-2002.

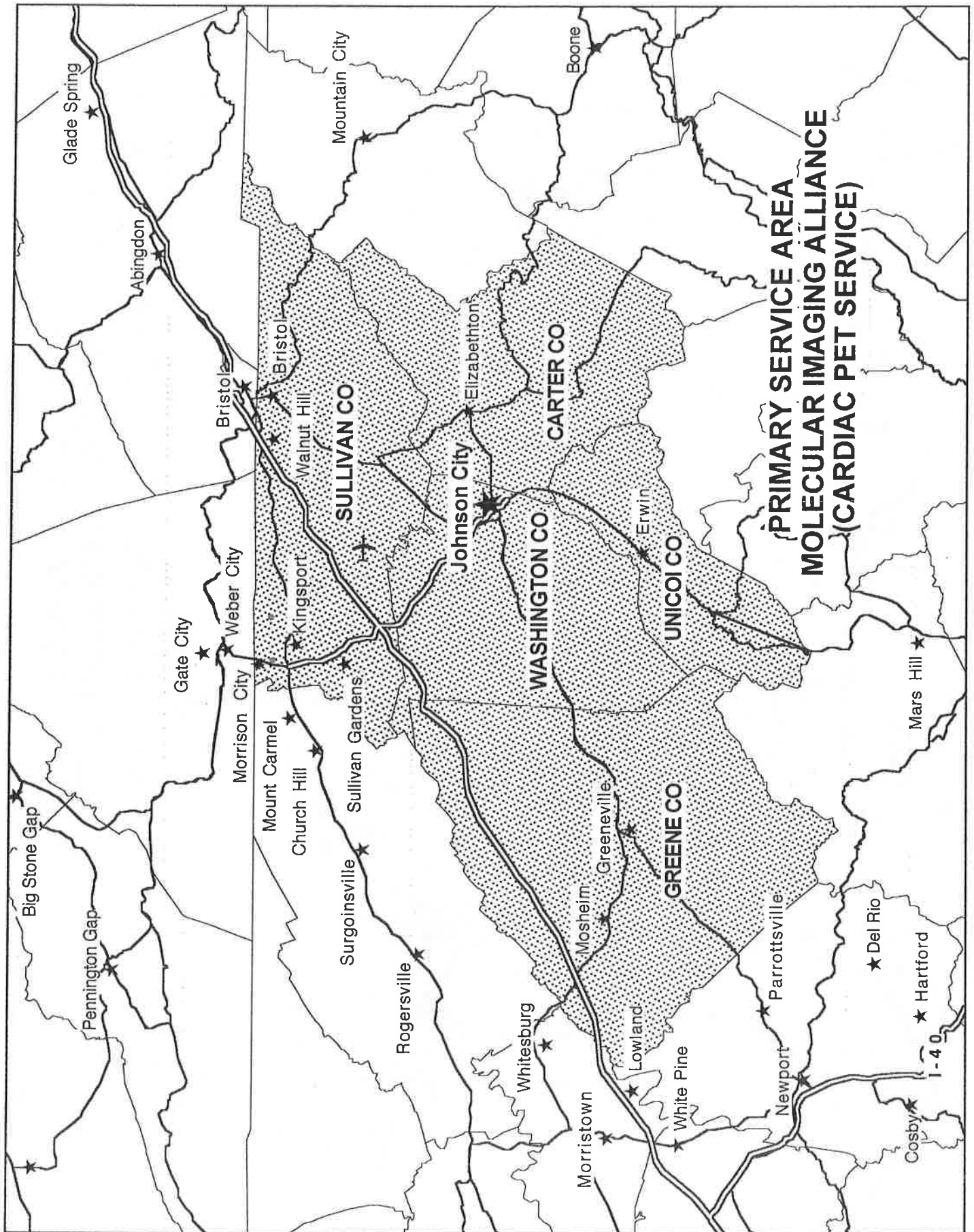
- ICGME Resident Representative. East Tennessee State University. 2001- 2002.
- Chief Cardiology Fellow- East Tennessee State University 2004-2005.
- Business Journal Healthcare Hero Award Recipient 2009.
- Medical Director Mountain States Medical Group- Cardiology 2009.
- Medical Director Molecular Imaging Alliance 2010.
- National Cardiology Advisor Nuclear Medicine- Molecular Imaging Alliance 2010.
- Vice-Chair Department of Cardiology Mountain States Medical Center 2012-2014.
- Most Loved Provider from Project Access 2012.

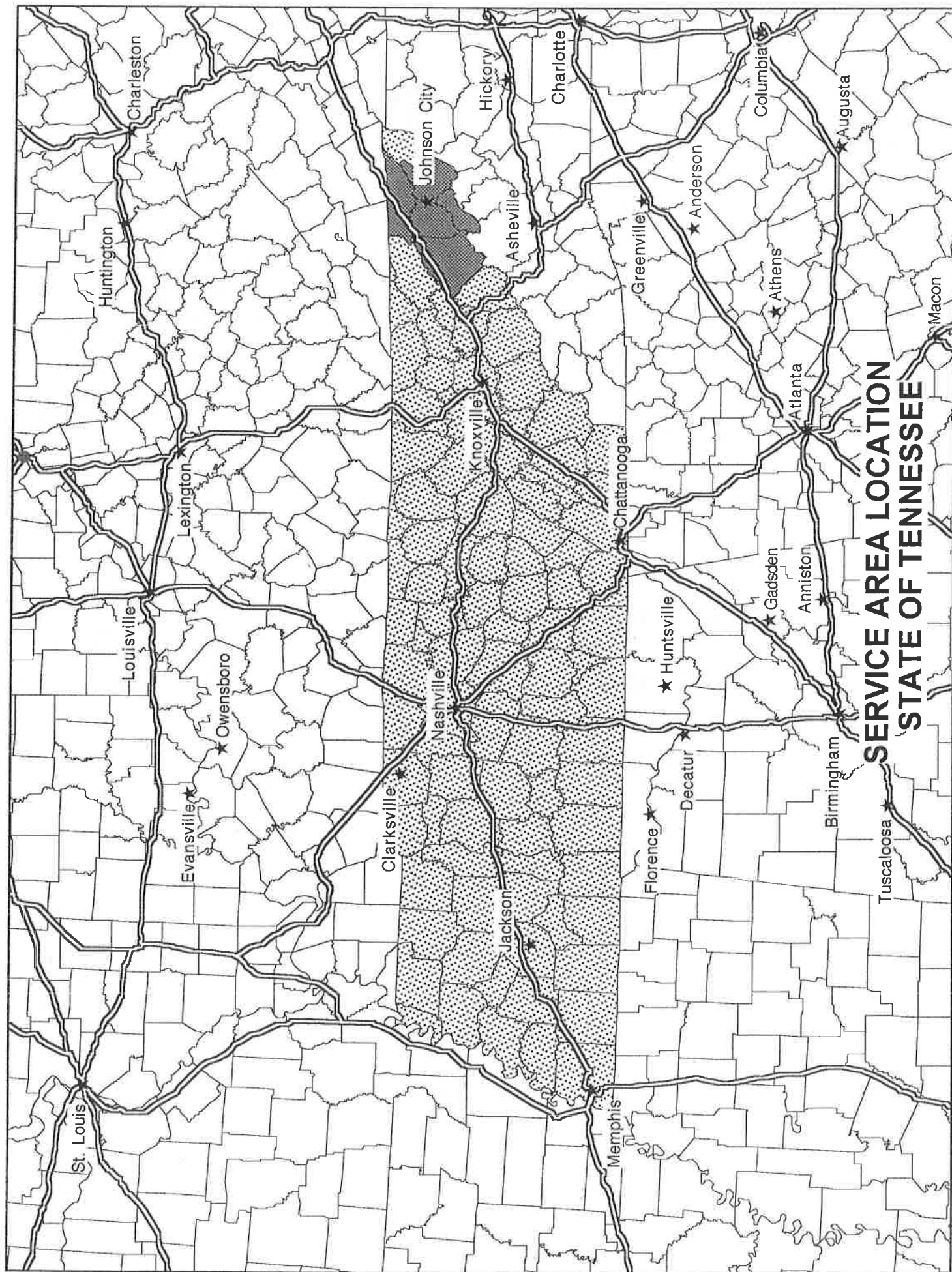
Volunteer Work

- President, Kari's Heart Foundation, Inc. A non-profit 501c3 charitable organization which provides assistance to the families of hospitalized children. 8/2008- Present.
- March of Dimes 2009 & 2010.
- Project Access: A non-profit service for underserved individuals within the healthcare system.

References Available On Request

**C, Need--3
Service Area Maps**





**SERVICE AREA LOCATION
STATE OF TENNESSEE**

C, Economic Feasibility--1
Documentation of Construction Cost Estimate



Architectural
Services

April 12, 2013

Mr. Rob Gregory
Lifescan of Tennessee
701 N State of Franklin Road, Suite 1
Johnson City, Tennessee 37601

**Subject: Verification for Construction Cost Estimate
New Molecular Imaging Center – Interior Buildout
Johnson City, Tennessee**

CainRashWest, Architects an architectural firm in Kingsport, Tennessee, has reviewed the cost data for the above referenced project, for which this firm has provided a preliminary design. The stated renovated construction cost is approximately \$150,000.00. [In providing opinions of probable construction cost, the Client understands that the Consultant has no control over the cost or availability of labor, equipment of materials, or over market conditions of the selected Contractor's method of pricing, and that the Consultant's opinions of probable construction costs are made on the basis of the Consultant's professional judgment and experience. The Consultant makes no warranty, express or implied, that the bids or negotiated cost of the Work will not vary from the Consultant's opinion of probable construction cost.]

It is our opinion that at this time, the projected renovated construction cost is reasonable for this type and size of project and compares appropriately with similar projects in this market.

The current building codes applicable to the project, as the date of the letter, will be:

International Building Code, 2006

NFPA 101 Life Safety Code, 2006

FGI Guidelines for Design and Construction of Health Care Facilities, 2010 Edition

ANSIA-117.1, 2003

Sincerely,

A handwritten signature in black ink, appearing to read "M. Hiram Rash". The signature is fluid and stylized, with a long horizontal line extending to the right.

M. Hiram Rash, AIA
TN License # 15351
CainRashWest, Architects

C, Economic Feasibility--2
Documentation of Availability of Funding



March 8, 2013

Melanie M. Hill, Executive Director
Tennessee Health Services and Development Agency
Frost Building, Third Floor
161 Rosa Parks Boulevard
Nashville, Tennessee 37203

RE: (Lifescan Tennessee Cardiac PET ODC change of site)

Dear Ms. Hill:

This letter is to provide assurance that (Mountain Commerce Bank) is familiar with the subject project, which is being proposed by (Lifescan Tennessee).

Upon submittal and approval of a formal financing application, we would expect to be able to provide both construction and permanent financing for this project. We understand that the financing required would total approximately \$204,500.00 of initial funding.

The loan package on this project would of course reflect market conditions at the time of loan approval. Currently we would expect to finance this type of project at an interest rate of approximately 5%, for a term of 10-years. Attached is an amortization schedule reflecting that estimate.

We look forward to helping with the financing of this project.

Sincerely,

Kenneth N. Raff II
First Vice President

3122 Bristol Hwy Johnson City TN 37601
PH: 423-232-5014

Mortgage calculator



Advertising Disclosure: Bankrate.com is an independent, advertising-supported comparison service. Bankrate may be compensated in exchange for featured placement of certain sponsored products and services, or your clicking on links posted on this website.

Adv:

FREE credit score—learn more now.

Bookmark this page

Follow Us:



Search Bankrate.com

Search

[Home](#) [Compare Rates](#) [Calculators](#) [News](#) [The Lighter Side](#) [Blogs](#)
[Mortgage Rates](#)[Refinance](#)[Home Equity](#)[CDs](#)[Investment](#)[Checking & Savings](#)[Auto](#)[Credit Cards](#)[Debt Management](#)[Insurance](#)[College Finance](#)[Retirement](#)[Taxes](#)[Find rates](#)

advertisement



Add a Free loan calculator to your site

Compare Mortgage Rates

30 yr fixed average

3.56%Zip code: Product:

About our rates

advertisement

Loan calculator and Amortization

Loan amount: Loan term: years or monthsInterest rate: % per yearLoan start date: 2013Monthly Payments:

Extra payments

Calculate the impact of extra payments using any combination of the inputs below.

Adding: to your monthly paymentAdding: as an extra yearly payment every Adding: as a one-time payment in 2014Changes paid off date to:

Amortization table for \$204,500.00 borrowed on Dec 01, 2013

| Month / Year | Payment | Principal Paid | Interest Paid | Total Interest | Balance |
|--------------|------------|----------------|---------------|----------------|--------------|
| Jan. 2014 | \$2,270.37 | \$1,247.87 | \$1,022.50 | \$1,022.50 | \$203,252.13 |
| Feb. 2014 | \$2,270.37 | \$1,254.11 | \$1,018.26 | \$2,038.76 | \$201,998.02 |
| Mar. 2014 | \$2,270.37 | \$1,260.38 | \$1,009.99 | \$3,048.75 | \$200,737.64 |
| April 2014 | \$2,270.37 | \$1,266.68 | \$1,003.69 | \$4,052.44 | \$199,470.96 |
| May 2014 | \$2,270.37 | \$1,273.01 | \$997.35 | \$5,049.79 | \$198,197.95 |
| June 2014 | \$2,270.37 | \$1,279.38 | \$990.99 | \$6,040.78 | \$196,918.57 |
| July 2014 | \$2,270.37 | \$1,285.78 | \$984.59 | \$7,025.38 | \$195,632.79 |
| Aug. 2014 | \$2,270.37 | \$1,292.21 | \$978.16 | \$8,003.54 | \$194,340.58 |
| Sept. 2014 | \$2,270.37 | \$1,298.67 | \$971.70 | \$8,975.24 | \$193,041.92 |
| Oct. 2014 | \$2,270.37 | \$1,305.15 | \$965.21 | \$9,940.45 | \$191,736.76 |
| Nov. 2014 | \$2,270.37 | \$1,311.66 | \$958.68 | \$10,899.14 | \$190,425.07 |
| Dec. 2014 | \$2,270.37 | \$1,318.24 | \$952.13 | \$11,851.28 | \$189,106.83 |
| Jan. 2015 | \$2,270.37 | \$1,324.84 | \$945.53 | \$12,796.80 | \$187,782.00 |
| Feb. 2015 | \$2,270.37 | \$1,331.48 | \$938.91 | \$13,735.71 | \$186,450.54 |
| Mar. 2015 | \$2,270.37 | \$1,338.12 | \$932.25 | \$14,667.96 | \$185,112.42 |
| April 2015 | \$2,270.37 | \$1,344.81 | \$925.56 | \$15,593.52 | \$183,767.61 |
| May 2015 | \$2,270.37 | \$1,351.53 | \$918.84 | \$16,512.36 | \$182,416.08 |
| June 2015 | \$2,270.37 | \$1,358.29 | \$912.08 | \$17,424.44 | \$181,057.79 |
| July 2015 | \$2,270.37 | \$1,365.09 | \$905.29 | \$18,329.73 | \$179,692.71 |
| Aug. 2015 | \$2,270.37 | \$1,371.91 | \$898.46 | \$19,228.19 | \$178,320.81 |
| Sept. 2015 | \$2,270.37 | \$1,378.77 | \$891.60 | \$20,119.80 | \$176,942.04 |
| Oct. 2015 | \$2,270.37 | \$1,385.68 | \$884.71 | \$21,004.51 | \$175,558.36 |
| Nov. 2015 | \$2,270.37 | \$1,392.59 | \$877.78 | \$21,882.29 | \$174,168.80 |
| Dec. 2015 | \$2,270.37 | \$1,399.55 | \$870.82 | \$22,753.11 | \$172,764.24 |
| Jan. 2016 | \$2,270.37 | \$1,406.55 | \$863.82 | \$23,616.93 | \$171,357.70 |

advertisement

Partner Center



advertisement

C, Economic Feasibility--10
Financial Statements

Balance Sheet
As of 12/31/2012

99

Lifescan Tennessee LLC (LST)

Liabilities

2200

Intercompany A/P to Soteria

\$ 1,705,880.04

Total Liabilities:

\$ 1,705,880.04

Equity

3800

Retained Earnings

\$ -862,717.66

3800

Retained Earnings-Current Year

\$ -843,162.38

Total Equity:

\$ -1,705,880.04

Total Liabilities & Equity:

\$ -0.00

Income Statement
For Period 12 Ending 12/31/2012

100

Lifescan Tennessee LLC (LST)

| | | Period to Date | % of Revenue | Year to Date | % of Revenue |
|------------------------------|----------------------------------|----------------|--------------|-----------------|--------------|
| Revenue | | | | | |
| 4071 | Molecular-Medicare | \$ 16,801.80 | 30.11% | \$ 359,632.30 | 31.65% |
| 4072 | Molecular-Medicaid | \$ -0.00 | -0.00% | \$ 8,798.24 | 0.77% |
| 4073 | Molecular-Commercial | \$ 23,134.79 | 41.46% | \$ 490,312.89 | 43.15% |
| 4074 | Molecular-BC/BS | \$ 12,174.48 | 21.82% | \$ 281,213.17 | 24.75% |
| 4075 | Molecular-Work Comp | \$ -0.00 | -0.00% | \$ 3,004.01 | 0.26% |
| 4076 | Molecular-Other | \$ 3,684.44 | 6.60% | \$ 35,083.03 | 3.09% |
| 4200 | Bad Debt - Patient Services | \$ -0.00 | -0.00% | \$ -41,741.72 | -3.67% |
| Total Revenue: | | \$ 55,795.51 | 100.00% | \$ 1,136,301.92 | 100.00% |
| Cost Of Sales | | | | | |
| 5100 | Radiological Fees | \$ 0.00 | 0.00% | \$ 102,732.50 | 9.04% |
| 5400 | Medical Supplies | \$ 0.00 | 0.00% | \$ 15.00 | 0.00% |
| 5500 | Contracted Services | \$ 0.00 | 0.00% | \$ 1,079.63 | 0.10% |
| 5800 | Medical Waste Disposal | \$ 0.00 | 0.00% | \$ 454.95 | 0.04% |
| 5900 | Other Direct Costs | \$ 40.58 | 0.07% | \$ 451.58 | 0.04% |
| Total Cost Of Sales: | | \$ 40.58 | 0.07% | \$ 104,733.66 | 9.22% |
| Gross Profit: | | \$ 55,754.93 | 99.93% | \$ 1,031,568.26 | 90.78% |
| Expenses | | | | | |
| Labor Expenses | | | | | |
| 6010 | Salaries & Wages - Regular | \$ 11,627.98 | 20.84% | \$ 189,086.28 | 16.64% |
| 6200 | Contracted Labor | \$ 0.00 | 0.00% | \$ -27,893.82 | -2.45% |
| 6350 | Other Employee Benefits | \$ 1,181.32 | 2.12% | \$ 14,364.80 | 1.26% |
| 6400 | Payroll Taxes | \$ 760.33 | 1.36% | \$ 15,333.30 | 1.35% |
| 6710 | Continuing Education | \$ 0.00 | 0.00% | \$ 50.00 | 0.00% |
| 6730 | Meals & Entertainment-Staff | \$ 0.00 | 0.00% | \$ 133.24 | 0.01% |
| Total Labor Expenses: | | \$ 13,569.63 | 24.32% | \$ 191,073.80 | 16.82% |
| Office Expense | | | | | |
| 7010 | Supplies | \$ 0.00 | 0.00% | \$ 2,751.65 | 0.24% |
| 7020 | Postage | \$ 0.00 | 0.00% | \$ 103.40 | 0.01% |
| 7030 | Shipping & Delivery | \$ 0.00 | 0.00% | \$ 44.89 | 0.00% |
| 7040 | Bank & Credit Card Fees | \$ 112.87 | 0.20% | \$ 1,708.43 | 0.15% |
| 7410 | Meals & Entertainment | \$ 0.00 | 0.00% | \$ 571.22 | 0.05% |
| 7420 | Travel Expense (Air, Hotel, Etc) | \$ 0.00 | 0.00% | \$ 3,741.95 | 0.33% |
| 7430 | Auto Expense | \$ 0.00 | 0.00% | \$ 1,617.99 | 0.14% |
| 7510 | Subscriptions | \$ 0.00 | 0.00% | \$ 33.94 | 0.00% |
| 7700 | Professional Fees | \$ 0.00 | 0.00% | \$ 5,748.35 | 0.51% |
| 7710 | Medical Director Fees | \$ 3,800.00 | 6.81% | \$ 37,266.64 | 3.28% |
| 7720 | Accounting / Audit Fees | \$ 0.00 | 0.00% | \$ 4,225.00 | 0.37% |
| 7730 | Legal Fees | \$ 0.00 | 0.00% | \$ 3,654.75 | 0.32% |
| 7930 | Management Fees | \$ 3,296.60 | 5.91% | \$ 76,695.32 | 6.75% |
| 7940 | Billing Fees | \$ 2,197.73 | 3.94% | \$ 51,130.22 | 4.50% |
| Total Office Expense: | | \$ 9,407.20 | 16.86% | \$ 189,293.75 | 16.66% |
| Operating Expenses | | | | | |
| 8010 | Occupancy Rent / Lease | \$ 2,850.00 | 5.11% | \$ 33,368.76 | 2.94% |
| 8020 | Common Area Maint. | \$ 425.00 | 0.76% | \$ 5,100.00 | 0.45% |
| 8030 | Utilities | \$ 102.64 | 0.18% | \$ 16,097.11 | 1.42% |
| 8060 | Office Expense | \$ 54.13 | 0.10% | \$ 4,873.12 | 0.43% |
| 8110 | Telephone, Local & LD | \$ 39.25 | 0.07% | \$ 5,082.21 | 0.45% |
| 8120 | Telephone, Cellular | \$ 16.14 | 0.03% | \$ 80.59 | 0.01% |
| 8220 | Computer Main/Support Fees | \$ 0.00 | 0.00% | \$ 1,280.00 | 0.11% |
| 8230 | Internet Service | \$ 0.00 | 0.00% | \$ 7,703.41 | 0.68% |
| 8310 | Service Contracts | \$ 372.67 | 0.67% | \$ 4,099.97 | 0.36% |
| 8320 | Repairs and Maintenance | \$ 0.00 | 0.00% | \$ 5,871.16 | 0.52% |
| 8411 | Insurance - General Business | \$ 126.62 | 0.23% | \$ 1,298.58 | 0.11% |
| 8412 | Insurance - Professional | \$ 967.18 | 1.73% | \$ 10,264.35 | 0.90% |
| 8415 | Insurance - Other | \$ 146.22 | 0.26% | \$ 1,564.44 | 0.14% |
| 8450 | Licenses | \$ 0.00 | 0.00% | \$ 5,328.25 | 0.47% |
| 8460 | Property Taxes | \$ -693.39 | -1.24% | \$ 1,286.61 | 0.11% |

Operating Expenses

(Continued) 101

| | | | | | | | |
|------|---------------------------------|----|-----------|---------|----|--------------|---------|
| 8462 | Other Taxes | \$ | 0.00 | 0.00% | \$ | 633.00 | 0.06% |
| 8500 | Equipment Lease Expense | \$ | 0.00 | 0.00% | \$ | 446.76 | 0.04% |
| 8530 | Lease Expense - Fixed Equipment | \$ | 99,167.00 | 177.73% | \$ | 1,190,004.00 | 104.73% |
| 8700 | Interest Expense | \$ | 0.00 | 0.00% | \$ | 142.80 | 0.01% |
| 8900 | Depreciation | \$ | 7,017.97 | 12.58% | \$ | 91,940.38 | 8.09% |

| | | | | | | |
|----------------------------------|----|------------|---------|----|--------------|---------|
| Total Operating Expenses: | \$ | 110,591.43 | 198.21% | \$ | 1,386,465.50 | 122.02% |
|----------------------------------|----|------------|---------|----|--------------|---------|

| | | | | | | |
|------------------------|----|------------|---------|----|--------------|---------|
| Total Expenses: | \$ | 133,568.26 | 239.39% | \$ | 1,766,833.05 | 155.49% |
|------------------------|----|------------|---------|----|--------------|---------|

| | | | | | | |
|------------------------------------|----|------------|----------|----|-------------|---------|
| Net Income From Operations: | \$ | -77,813.33 | -139.46% | \$ | -735,264.79 | -64.71% |
|------------------------------------|----|------------|----------|----|-------------|---------|

Other Income and Expense

| | | | | | | | |
|------|-----------------------------|----|-------------|----------|----|-------------|--------|
| 9300 | Gain/Loss on Sale of Assets | \$ | -262,138.29 | -469.82% | \$ | -107,897.59 | -9.50% |
|------|-----------------------------|----|-------------|----------|----|-------------|--------|

| | | | | | | |
|----------------------------------------|----|-------------|----------|----|-------------|--------|
| Total Other Income and Expense: | \$ | -262,138.29 | -469.82% | \$ | -107,897.59 | -9.50% |
|----------------------------------------|----|-------------|----------|----|-------------|--------|

| | | | | | | |
|------------------------------------|----|-------------|----------|----|-------------|---------|
| Earnings Before Income Tax: | \$ | -339,951.62 | -609.28% | \$ | -843,162.38 | -74.20% |
|------------------------------------|----|-------------|----------|----|-------------|---------|

| | | | | | | |
|---------------------------|----|-------------|----------|----|-------------|---------|
| Net Income (Loss): | \$ | -339,951.62 | -609.28% | \$ | -843,162.38 | -74.20% |
|---------------------------|----|-------------|----------|----|-------------|---------|

C, Orderly Development--7(C)
TDH Inspection & Plan of Correction



STATE OF TENNESSEE
DEPARTMENT OF HEALTH
OFFICE OF HEALTH LICENSURE AND REGULATION
EAST TENNESSEE REGION
5904 LYONS VIEW PIKE, BLDG. 1
KNOXVILLE, TENNESSEE 37919
Amended

October 26, 2009

Ms. Laura Norman, Administrator
Life Scan Tennessee, LLC
830 Suncrest Drive, Unit 2
Gray, TN 37615

RE: 42

Dear Ms. Norman:

The East Tennessee Regional Office conducted a licensure survey at your facility on October 20 and 23, 2009. As a result of the survey, no deficient practice was found.

If our office may be of assistance to you, please feel free to call (865) 588-5656.

Sincerely,

Faye Vance, R.N., B.S., M.S.N.
Public Health Nurse Consultant Manager

FV:cvb



STATE OF TENNESSEE
DEPARTMENT OF ENVIRONMENT AND CONSERVATION
KNOXVILLE ENVIRONMENTAL FIELD OFFICE
3711 MIDDLEBROOK PIKE
KNOXVILLE, TENNESSEE 37921-6538
PHONE (865) 594-6035 STATEWIDE 1-888-891-8332 FAX (865) 594-6105

February 12, 2013

LifeScan Tennessee, Inc.
d/b/a Molecular Imaging Alliance
830 Suncrest Drive, Suite 2
Gray, TN 37615

ATTENTION: Charmaine Hart, RSO

Dear Ms. Hart:

Thank you for the cooperation given me during the inspection on February 4, 2013 of the activities conducted under Radioactive Materials License Number R-90048. After reviewing the data collected, we are pleased to inform you that we note no items of non-compliance with the "State Regulations for Protection Against Radiation" in your program.

Sincerely,

A handwritten signature in black ink, appearing to read "Mariza L. Gonzalez".

Mariza L. Gonzalez
Health Physicist
Division of Radiological Health

Miscellaneous Information

SUPPORT LETTERS

2013 APR 15 PM 3 05
AFFIDAVITMOLECULAR IMAGING
ALLIANCESTATE OF TENNESSEECOUNTY OF DAVIDSON

JOHN WELLBORN, being first duly sworn, says that he/she is the lawful agent of the applicant named in this application, that this project will be completed in accordance with the application to the best of the agent's knowledge, that the agent has read the directions to this application, the Rules of the Health Services and Development Agency, and T.C.A. § 68-11-1601, *et seq.*, and that the responses to this application or any other questions deemed appropriate by the Health Services and Development Agency are true and complete to the best of the agent's knowledge.

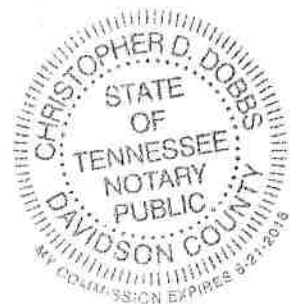
John Wellborn
SIGNATURE/TITLE

Sworn to and subscribed before me this 15 day of April, 2013 a Notary
(Month) (Year)

Public in and for the County/State of TN

Christopher D. Dobbs
NOTARY PUBLIC

My commission expires 6-21, 2016
(Month/Day) (Year)



COPY- ADDITIONAL Info

Molecular Imaging Alliance

CN1304-014

2013 APR 29 PM 4 15

April 29, 2013

Phillip M. Earhart, Health Planner III
Tennessee Health Services and Development Agency
161 Rosa L. Parks Boulevard
Nashville, Tennessee 37203

RE: CON Application CN1304-014
Molecular Imaging Alliance

Dear Mr. Earhart:

This letter provides additional information to supplement the applicant's April 24 responses to your First Supplemental Questions about the subject application. The items below are numbered to correspond to your questions. They are provided in triplicate, with affidavit.

6. Section B, Item II. E.
What is the age of the PET scanner?

Please disregard the April 24 response, and substitute the following response:

Soteria advises us that it purchased it new in June 2002. It was located at another facility for more than four years, and then was transferred to the LifeScan Tennessee ODC in Gray in 2007. It is now approximately eleven years old.

11. Section C, Economic Feasibility, Item 4.
e. Please indicate if the cost of radiopharmaceuticals were factored in the Projected Data Chart.

Please disregard the April 24 response and substitute the following response:

The applicant did include them in Supplies, line D3, as shown below. Molecular does not have access to the deep-discount purchasing contracts of a large hospital system, so Molecular is projecting higher general supply and Lexiscan costs per patient than Wellmont is projecting.

| | <u>Year 1</u> | <u>Year 2</u> |
|--------------------------------------------|---------------|---------------|
| Patients | 808 | 889 |
| General supplies @ \$15 per patient | \$ 12,120 | \$ 13,335 |
| N-13 @ \$320 (2 doses) per patient | \$258,560 | \$284,480 |
| Lexiscan (stress agent) @ \$70 per patient | \$ 56,560 | \$ 62,230 |
| Total | \$327,240 | \$360,045 |

Page Two
April 29, 2013

While itemizing the supply costs, Molecular has identified an overstatement of those costs on the Projected Data Chart, page 39. Attached immediately after the signature page are revised pages 39R and 41R with that correction.

12. Section C, Economic Feasibility, Item 10.

The income statement of the applicant is noted. Please provide a Balance Sheet from the most recent reporting period.

Since April 24, the applicant has learned that Soteria, the prior owner of the LifeScan ODC, like many large companies, did not do audits of each subsidiary's financial statements. So there are no audited statements available for any period, for LifeScan. However, Soteria has provided its last available unaudited detailed data in the form of Q1-Q3 (Jan-Sept) 2012 income and expense statements, which are attached after this page. In addition, the applicant has attached its own Q1 2013 income and expense statements with detailed information.

Additional Item

Also attached at the end of this response is a duplicate of the last page of the April 24 first supplemental responses, with my signature affixed. Please note its page number says (Executed) to avoid confusion with this letter's signature page.

Thank you for your assistance. We hope this provides the information needed to accept the application into the next review cycle. If more is needed please FAX or telephone me so that we can respond in time to be deemed complete.

Respectfully,



John Wellborn
Consultant

LifeScan¹ Tennessee, LLC
Balance Sheet - Compilation
As of March 31, 2013

Cash Basis

| | Mar 31, 13 |
|---------------------------------------|------------------|
| ASSETS | |
| Current Assets | |
| Checking/Savings | |
| Cash in Bank | 13,820.78 |
| Total Checking/Savings | 13,820.78 |
| Total Current Assets | 13,820.78 |
| TOTAL ASSETS | 13,820.78 |
| LIABILITIES & EQUITY | |
| Liabilities | |
| Current Liabilities | |
| Other Current Liabilities | |
| Payroll Liabilities | |
| Payroll Taxes | |
| FUTA Company | 124.50 |
| SUTA Company | 668.23 |
| Total Payroll Taxes | 792.73 |
| Total Payroll Liabilities | 792.73 |
| Total Other Current Liabilities | 792.73 |
| Total Current Liabilities | 792.73 |
| Total Liabilities | 792.73 |
| Equity | |
| Members Equity | 11,307.34 |
| Net Income | 1,720.71 |
| Total Equity | 13,028.05 |
| TOTAL LIABILITIES & EQUITY | 13,820.78 |

See accountants' compilation report.

8:53 AM
04/26/13
Cash Basis

LifeScan Tennessee, LLC
Profit & Loss - Compilation
January through March 2013

SUPPLEMENTAL

| | Jan - Mar 13 |
|-----------------------------------|--------------|
| Ordinary Income/Expense | |
| Income | |
| Practice Receipts | 251,934.69 |
| Refunds | -380.55 |
| Total Income | 251,554.14 |
| Gross Profit | 251,554.14 |
| Expense | |
| Bank Service Charges | 698.33 |
| Clinical Supplies | 87,708.00 |
| Contractual Services | |
| Transcriptions | 680.82 |
| Total Contractual Services | 680.82 |
| Equipment Rental | 20,143.69 |
| Insurance Expense | 382.00 |
| Interest Expense | 4,994.13 |
| Internet Expense | 179.08 |
| IT Technical Support | 4,100.00 |
| Licenses and Permits | 900.00 |
| Management Fee | 18,862.66 |
| Meals and Entertainment | 76.07 |
| Medical Director Fees | 11,400.00 |
| Office Supplies | 477.16 |
| Payroll Expenses | |
| Employee Benefits | |
| Health Insurance | 3,468.57 |
| Total Employee Benefits | 3,468.57 |
| Employee Salaries and Wages | |
| Employee Salaries | 15,624.46 |
| Employee Wages | 23,337.24 |
| Total Employee Salaries and Wages | 38,961.70 |
| Payroll Taxes | |
| Federal Unemployment | 124.50 |
| TN Unemployment | 668.23 |
| Total Payroll Taxes | 792.73 |
| Payroll Expenses - Other | 3,801.03 |
| Total Payroll Expenses | 47,024.03 |
| Postage and Shipping | 105.65 |
| Professional Fees | |
| Legal Fees | 4,000.00 |
| Professional Fees - Other | 29,388.00 |
| Total Professional Fees | 33,388.00 |
| Rent Expense | 9,402.50 |
| Repairs and Maintenance | 200.00 |
| Supplies | 1,848.24 |
| Telephone Expense | 1,047.14 |
| Utilities | |
| Electricity | 5,795.17 |
| Gas | 420.76 |
| Total Utilities | 6,215.93 |
| Total Expense | 249,833.43 |
| Net Ordinary Income | 1,720.71 |
| Net Income | 1,720.71 |

See accountants' compilation report.

2013 APR 29 PM 4 15

Assets

Cash and Equivalents

| | | | |
|------|------------------------------------|--------------|--------------|
| 1020 | Checking | \$-21,319.00 | |
| | Total Cash and Equivalents: | | \$-21,319.00 |

Accounts Receivable

| | | | |
|------|-------------------------------------|---------------|---------------|
| 1100 | Accounts Receivable | \$ 183,120.94 | |
| 1120 | Bad Debt Reserve - Patient Accounts | \$-24,734.39 | |
| | Total Accounts Receivable: | | \$ 158,386.55 |

Prepaid & Deposits, Inventory

| | | | |
|------|-------------------------------------------------|-------------|-------------|
| 1301 | Prepaid Expenses | \$ 1,417.25 | |
| | Total Prepaid & Deposits, Inventory: | | \$ 1,417.25 |

Fixed Assets

| | | | |
|------|----------------------------|---------------|---------------|
| 1710 | Technical Equipment | \$ 46,000.00 | |
| 1720 | Office Equipment | \$ 17,190.92 | |
| 1730 | Computer Hardware | \$ 16,661.44 | |
| 1735 | Computer Software | \$ 62,980.00 | |
| 1750 | Furniture & Fixtures | \$ 18,023.82 | |
| 1760 | Leasehold Improvements | \$ 445,554.50 | |
| 1790 | Accumulated Depreciation | \$-438,275.49 | |
| | Total Fixed Assets: | | \$ 168,135.19 |
| | Total Assets: | | \$ 306,619.99 |

Liabilities

A/P Trade

| | | | |
|------|-------------------------|---------------|---------------|
| 2010 | A/P Trade | \$ 54,950.37 | |
| 2071 | A/P to Mgmt Co. | \$ 595,003.00 | |
| | Total A/P Trade: | | \$ 649,953.37 |

Accrued Payroll & Taxes

| | | | |
|------|-------------------------------------------|-------------|--------------|
| 2110 | Accrued Payroll | \$ 6,520.14 | |
| 2120 | Payroll Taxes Payable | \$ 2,410.56 | |
| 2130 | 401k Payable | \$ 279.35 | |
| 2140 | Accrued Vacation Pay | \$ 2,453.00 | |
| 2190 | Other Taxes Payable | \$ 3,237.00 | |
| | Total Accrued Payroll & Taxes: | | \$ 14,900.05 |

Intercompany A/P

| | | | |
|------|--------------------------------|-----------------|-----------------|
| 2200 | Intercompany A/P to Soteria | \$ 1,254,324.93 | |
| | Total Intercompany A/P: | | \$ 1,254,324.93 |

Other Accrued & Current Liabilities

| | | | |
|------|-------------------------------------------------------|-------------|-------------|
| 2300 | Other Accrued & Current Liabilities | \$ 7,330.00 | |
| | Total Other Accrued & Current Liabilities: | | \$ 7,330.00 |

Long-Term Portion of Debt

| | | | |
|------|-----------------------------------------|-----------|-----------------|
| 2665 | NEC Payable | \$ 295.85 | |
| | Total Long-Term Portion of Debt: | | \$ 295.85 |
| | Total Liabilities: | | \$ 1,926,804.20 |

Equity

| | | | |
|------|----------------------------------------|-----------------|-----------------|
| 3800 | Retained Earnings | \$-1,259,386.66 | |
| 3800 | Retained Earnings-Current Year | \$-360,797.55 | |
| | Total Equity: | | \$-1,620,184.21 |
| | Total Liabilities & Equity: | | \$ 306,619.99 |

Income Statement
For Period 9 Ending 9/30/2012

114

SUPPLEMENTAL
Lifescan Tennessee LLC (LST)

| | | Period to Date | % of Revenue | Year to Date | % of Revenue |
|------------------------------|----------------------------------|---------------------|----------------|----------------------|----------------|
| Revenue | | | | | |
| 4071 | Molecular-Medicare | \$ 24,078.34 | 37.45% | \$ 311,378.49 | 32.58% |
| 4072 | Molecular-Medicaid | \$ 1,971.17 | 3.07% | \$ 8,798.24 | 0.92% |
| 4073 | Molecular-Commercial | \$ 21,754.70 | 33.84% | \$ 402,595.65 | 42.13% |
| 4074 | Molecular-BC/BS | \$ 21,683.55 | 33.73% | \$ 236,820.39 | 24.78% |
| 4075 | Molecular-Work Comp | \$ 0.00 | 0.00% | \$ 3,004.01 | 0.31% |
| 4076 | Molecular-Other | \$ -3,247.62 | -5.05% | \$ 27,852.47 | 2.91% |
| 4200 | Bad Debt - Patient Services | \$ -1,946.50 | -3.03% | \$ -34,853.87 | -3.65% |
| Total Revenue: | | \$ 64,293.64 | 100.00% | \$ 955,595.38 | 100.00% |
| Cost Of Sales | | | | | |
| 5100 | Radiological Fees | \$ 7,243.00 | 11.27% | \$ 97,794.00 | 10.23% |
| 5500 | Contracted Services | \$ 298.34 | 0.46% | \$ 926.66 | 0.10% |
| 5800 | Medical Waste Disposal | \$ 0.00 | 0.00% | \$ 454.95 | 0.05% |
| 5900 | Other Direct Costs | \$ 37.63 | 0.06% | \$ 333.16 | 0.03% |
| Total Cost Of Sales: | | \$ 7,578.97 | 11.79% | \$ 99,508.77 | 10.41% |
| Gross Profit: | | \$ 56,714.67 | 88.21% | \$ 856,086.61 | 89.59% |
| Expenses | | | | | |
| Labor Expenses | | | | | |
| 6010 | Salaries & Wages - Regular | \$ 16,777.08 | 26.09% | \$ 149,749.17 | 15.67% |
| 6350 | Other Employee Benefits | \$ 1,182.53 | 1.84% | \$ 10,338.03 | 1.08% |
| 6400 | Payroll Taxes | \$ 1,271.43 | 1.98% | \$ 12,455.17 | 1.30% |
| 6710 | Continuing Education | \$ 0.00 | 0.00% | \$ 50.00 | 0.01% |
| 6730 | Meals & Entertainment-Staff | \$ 0.00 | 0.00% | \$ 42.93 | 0.00% |
| Total Labor Expenses: | | \$ 19,231.04 | 29.91% | \$ 172,635.30 | 18.07% |
| Office Expense | | | | | |
| 7010 | Supplies | \$ 189.54 | 0.29% | \$ 2,290.72 | 0.24% |
| 7020 | Postage | \$ 0.00 | 0.00% | \$ 103.40 | 0.01% |
| 7030 | Shipping & Delivery | \$ 0.00 | 0.00% | \$ 44.89 | 0.00% |
| 7040 | Bank & Credit Card Fees | \$ 54.24 | 0.08% | \$ 1,361.15 | 0.14% |
| 7410 | Meals & Entertainment | \$ 44.21 | 0.07% | \$ 421.19 | 0.04% |
| 7420 | Travel Expense (Air, Hotel, Etc) | \$ 113.36 | 0.18% | \$ 3,069.52 | 0.32% |
| 7430 | Auto Expense | \$ 121.67 | 0.19% | \$ 1,011.35 | 0.11% |
| 7510 | Subscriptions | \$ 21.97 | 0.03% | \$ 33.94 | 0.00% |
| 7700 | Professional Fees | \$ 0.00 | 0.00% | \$ 5,528.35 | 0.58% |
| 7710 | Medical Director Fees | \$ 3,800.00 | 5.91% | \$ 34,200.00 | 3.58% |
| 7730 | Legal Fees | \$ 0.00 | 0.00% | \$ 416.00 | 0.04% |
| 7930 | Management Fees | \$ 5,283.71 | 8.22% | \$ 63,394.35 | 6.63% |
| 7940 | Billing Fees | \$ 3,522.48 | 5.48% | \$ 42,262.91 | 4.42% |
| Total Office Expense: | | \$ 13,151.18 | 20.45% | \$ 154,137.77 | 16.13% |
| Operating Expenses | | | | | |
| 8010 | Occupancy Rent / Lease | \$ 2,850.00 | 4.43% | \$ 24,818.76 | 2.60% |
| 8020 | Common Area Maint. | \$ 425.00 | 0.66% | \$ 3,825.00 | 0.40% |
| 8030 | Utilities | \$ 2,906.47 | 4.52% | \$ 10,791.17 | 1.13% |
| 8060 | Office Expense | \$ 1,974.98 | 3.07% | \$ 4,119.47 | 0.43% |
| 8110 | Telephone, Local & LD | \$ 363.58 | 0.57% | \$ 4,309.54 | 0.45% |
| 8120 | Telephone, Cellular | \$ 16.07 | 0.02% | \$ 32.20 | 0.00% |
| 8220 | Computer Main/Support Fees | \$ 0.00 | 0.00% | \$ 1,280.00 | 0.13% |
| 8230 | Internet Service | \$ 700.31 | 1.09% | \$ 6,302.79 | 0.66% |
| 8310 | Service Contracts | \$ 372.73 | 0.58% | \$ 2,981.84 | 0.31% |
| 8320 | Repairs and Maintenance | \$ 1,986.93 | 3.09% | \$ 5,321.16 | 0.56% |
| 8411 | Insurance - General Business | \$ 111.94 | 0.17% | \$ 918.72 | 0.10% |
| 8412 | Insurance - Professional | \$ 866.05 | 1.35% | \$ 7,362.81 | 0.77% |
| 8415 | Insurance - Other | \$ 132.24 | 0.21% | \$ 1,125.78 | 0.12% |
| 8450 | Licenses | \$ 0.00 | 0.00% | \$ 5,328.25 | 0.56% |
| 8460 | Property Taxes | \$ 888.84 | 1.38% | \$ 2,328.84 | 0.24% |
| 8462 | Other Taxes | \$ 33.00 | 0.05% | \$ 633.00 | 0.07% |
| 8500 | Equipment Lease Expense | \$ 0.00 | 0.00% | \$ 335.07 | 0.04% |
| 8530 | Lease Expense - Fixed Equipment | \$ 99,167.00 | 154.24% | \$ 892,503.00 | 93.40% |

| | | | Period to Date | % of Revenue | Year to Date | % of Revenue |
|----------------------------------------|-----------------------------|--|----------------|--------------|-----------------|--------------|
| Operating Expenses | | | | | | |
| (Continued) | | | | | | |
| 8700 | Interest Expense | | \$ 0.00 | 0.00% | \$ 139.53 | 0.01% |
| 8900 | Depreciation | | \$ 7,766.11 | 12.08% | \$ 69,894.86 | 7.31% |
| Total Operating Expenses: | | | \$ 120,561.25 | 187.52% | \$ 1,044,351.79 | 109.29% |
| Total Expenses: | | | \$ 152,943.47 | 237.88% | \$ 1,371,124.86 | 143.48% |
| Net Income From Operations: | | | \$-96,228.80 | -149.67% | \$-515,038.25 | -53.90% |
| Other Income and Expense | | | | | | |
| 9300 | Gain/Loss on Sale of Assets | | \$ 0.00 | 0.00% | \$ 154,240.70 | 16.14% |
| Total Other Income and Expense: | | | \$ 0.00 | 0.00% | \$ 154,240.70 | 16.14% |
| Earnings Before Income Tax: | | | \$-96,228.80 | -149.67% | \$-360,797.55 | -37.76% |
| Net Income (Loss): | | | \$-96,228.80 | -149.67% | \$-360,797.55 | -37.76% |

Page Eleven (Executed)
April 24, 2013

f. If the applicant had a cyclotron on-site what would be the impact on Project Costs and the Projected Data Chart.

This is not a calculation that the applicant has made, or needs to make. Cyclotrons and radiopharmacies are so expensive to establish and to staff that the applicant's acquisition and operation of one just for this project would make the project financially unfeasible. There is not a need for an additional cyclotron in the service area so long as this one performs so efficiently and dependably for area providers with whom it has long-established relationships.

12. Section C, Economic Feasibility, Item 10.

The income statement of the applicant is noted. Please provide a Balance Sheet from the most recent reporting period.

Our copies of the filing indicate that it was included as the first page in Attachment C--Economic Feasibility--10, immediately preceding the LifeScan income statement. Please note that this is the CY2012 balance sheet provided by Soteria, the prior ODC owner until late December 2012. The applicant cannot be responsible for it.

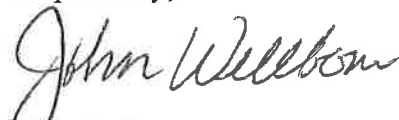
13. Section C, Orderly Development, Item 3.

The proposed salary ranges for the Registered Nurse and Nuclear Medicine Tech appears to be below the mean TDOL surveyed salaries for the proposed service area. Please clarify.

Attached following this page are revised pages 49R and 50R, with more detailed and current data, and with the error in the RN salary range corrected.

Thank you for your assistance. We hope this provides the information needed to accept the application into the next review cycle. If more is needed please FAX or telephone me so that we can respond in time to be deemed complete.

Respectfully,



John Wellborn
Consultant

AFFIDAVIT

2013 APR 29 PM 4 15

STATE OF TENNESSEE

COUNTY OF DAVIDSON

NAME OF FACILITY:

Molecular Imager Alliance

I, JOHN WELLBORN, after first being duly sworn, state under oath that I am the lawful agent of the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge.

John Wellborn
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 29 day of APRIL, 2013,
witness my hand at office in the County of DAVIDSON, State of Tennessee.

[Signature]
NOTARY PUBLIC

My commission expires 1-11 - 2017.

HF-0043

Revised 7/02



Copy

Supplemental #~~11~~ 1

Molecular Imaging Alliance

CN1304-014

2013 APR 24 PM 2 02

April 24, 2013

Phillip M. Earhart, Health Planner III
Tennessee Health Services and Development Agency
161 Rosa L. Parks Boulevard
Nashville, Tennessee 37203

RE: CON Application CN1304-014
Molecular Imaging Alliance

Dear Mr. Earhart:

This letter responds to your recent request for additional information on this application. The items below are numbered to correspond to your questions. They are provided in triplicate, with affidavit.

1. Section A, Applicant Profile, Item 1 and Item 2

The applicant has provided the existing location of the Outpatient Diagnostic Center that houses the PET. Please revise and submit a replacement page that includes the new proposed location. Please provide a complete contact phone number.

Revised page 1R is attached following this page, with the address and the phone number as requested.

2. Section A, Applicant Profile, Item 3

The initial filing of Lifescan Tennessee, LLC is noted. Please provide documentation from the Tennessee Secretary of State that provides documentation the LLC is active. The web-site is <http://tnbear.tn.gov/Ecommerce/FilingSearch.aspx>

Documentation from that website is attached following this page.

Page Two
April 24, 2013

3. Section B, Project Description, Item I

a. In the companion application, Wellmont Cardiology Services, CN1304-013, it is mentioned the remote location of the current two PET scanners in Gray Tennessee is located between the region's two largest medical care centers. Please clarify if these locations were strategically chosen to serve two medical centers.

The original location in Gray was intended to serve patients from both the Kingsport and Johnson City medical centers. It has served hundreds of patients annually from that location. However, many more physicians and patients would utilize it if it were closer to the physician and patient concentrations near the medical centers. The locations have been chosen to provide that advantage. The Johnson City location is just down the street from Johnson City Medical Center, less than a mile away.

b. Also in the companion application, Wellmont Cardiology Services, CN1304-013, it mentioned this application, Molecular Imaging Alliance, CN1304-014 was told by its equipment leasing company that it will lease only one PET unit at the new location. Please discuss and clarify this statement.

Actually, the reverse is the case: The applicant Molecular, which now leases two cardiac PET units, has told its leasing company that it--Molecular--will lease only one of those units when it moves to Johnson City. See p. 14, second paragraph of this application, which provides more details and a context.

4. Section B, Project Description, Item II.A.

a. Please describe the nuclear "hot lab".

A nuclear hot lab for PET is a single room where (a) the radioactive dose from the vendor is physically delivered, (b) the containers are validated by the nuclear medicine technician to be free of external radiation dangers, (c) the dosages are validated to comply with dosage requirements, and (b) the dosages are placed in shielded syringes, inside shielded containers, before transport to the "camera room" where the patient is lying on a table to receive the injection.

The hot lab room has a dose calibrator, a lead-shielded PET unit dose cabinet, meters with probes, a lead L-block shield, leaded syringe carriers and shields, and various support items such as instruments, decontamination kit, sharps containers, and radioactive sources (200mci; 5 mci). The shielding protects the technician, nurse, physician, and patient--before, during, and after the injection of the radioactive substance in the adjoining cardiac PET camera room.

Page Three
April 24, 2013

b. Does this proposed project include an on-site cyclotron? If not, are there any long-term plans to include a cyclotron on-site?

No, to both questions. Cyclotrons are prohibitively expensive to acquire and staff. The one in Gray has the capacity to provide all dosages needed in the entire Upper East Tennessee region. The applicant and the vendor have a long-established business relationship.

c. Table Three-B on the bottom of page three is noted. The correct CON number for ImagDent of Memphis is CN0908-044. Please revise and submit a replacement page.

Revised page 10R, with the excess digit removed from the CON number, is attached following this page.

5. Section B, Item II. D.

The applicant states cardiac PET uses only two radiopharmaceuticals: ammonia (N-13) or rubidium (R-82). The applicant states N-13 has a half-life of 10 minutes and R-82 has a half-life of 75 seconds. The applicant further states as a practical matter, the radiopharmaceutical supplier must be within a short drive of the cardiac PET, if not in the same building (such as the current case for the applicant). The applicant states the current radiopharmaceutical provider will continue to provide materials by manufacturing sufficient amounts so that the required dosage is sufficient by the time it is administered. The applicant states if the delivery trip time plus administration of the pharmaceutical takes 30 minutes, then the amount with the strength of eight doses of N-13 might be sent, so that after its radioactivity diminishes by 50% every 10 minutes, one full doses remains for injection.

Please respond to the following questions in regards to the above statements:

a. If eight doses of N-13 is sent 10.3 miles to the new proposed location to finally equal one dose, does that mean the applicant will pay for more N-13 materials than if the PET was on-site with the cyclotron.

The N-13 cost will not increase in this relocation. The applicant has the vendor's commitment to deliver the needed dosages to the Johnson City site for the same price as they are now delivered to Gray. Any price increases in the future will not be due to distance. This vendor delivers to many different locations in the area already. The vendor is willing to deliver N-13 at distances up to a half hour drive from Gray.

Page Four
April 24, 2013

b. What happens if there is a time delay during transport of radiopharmaceuticals?

The vendor has been delivering N-13 dosages to the mobile PET at Holston Valley Medical Center in Kingsport for more than a year and has never been delayed sufficiently to require rescheduling of patients. According to the vendor, that delivery averages 23 minutes drive time one-way, compared to only 12 minutes to the WCS project site on Meadowview Parkway, and 13 minutes to the Molecular project site in Johnson City. In addition, the vendor's drivers constantly monitor emergency broadcast frequencies to identify road closures or automobile accidents, and they choose alternate routes to avoid such delays.

If there were a major delay, for example from a storm or emergency closure of an interstate or federal highway, the patient would be rescheduled. This is an outpatient diagnostic procedure.

c. Is it safer for the patient to receive radiopharmaceuticals from a cyclotron on-site where the time element is more closely monitored?

Not at all. All delivery drivers must be licensed by the State Department of Conservation and Environment to handle radioactive materials and must be trained and certified by the US Department of Transportation in safe transport procedures. Off-site delivery is a safe and well-established practice nationally because cyclotrons are costly and few in number, and must therefore supply most of their customers through off-site deliveries.

d. Is the increase in the supply cost of \$105,499 in the Historical Data Chart in 2012 to \$520,219 in the Projected Data Chart in 2015 attributed to the increase in radiological doses needed due to diminishing radioactivity?

No. The Historical Data Chart reflects the operations of the previous ODC owner, Soteria Imaging and not the current ODC owner.

Until the last few days of CY2012, Soteria owned both the LifeScan ODC and the leasing company that provided its PET systems, and from 2010-2012 began to shift the cost of supplies to its PET equipment leasing company, for reasons not known to the applicant. This application's projection of supply costs reflect the applicant's own experience so far in CY2013 (the company changed owners in December of 2012).

Page Five
April 24, 2013

6. Section B, Item II. E.

What is the age of the PET scanner?

Soteria advises us that it purchased it new in June 2002. It was located at another facility for six years, and was transferred to the LifeScan Tennessee ODC in Gray in May 2008.

7. Section C, Need, Item 2.

The applicant states Molecular Imaging is not a hospital and does not prepare its own long-range campus or development plan. Please clarify if the relocation of the proposed ODC is a long- range or short- range plan.

The applicant has a long-range commitment to operate in Johnson City, close to referring cardiologists.

8. Section C, Need, Item 3

a. Table five on page 25 is noted. Please recheck the calculation for CY 2014 and CY 2015 PET scans. Please revise if needed.

The data are accurate--just rounded to the closest whole number. The scans by county were calculated by multiplying CY2012 county market share percentages, times the total projected annual scans. The county-level scan data were rounded into whole numbers. The unrounded scans by county do add exactly to the total projected utilization for both years.

Page Six
April 24, 2013

b. In CN0701-010, LifeScan Tennessee, LLC, the approved services area was ten (10) Tennessee Counties, including Carter, Cocke, Greene, Hamblen, Hancock, Hawkins, Johnson, Sullivan, Unicoi and Washington Counties. The applicant now proposes a service area consisting of five (5) Tennessee counties that includes Carter, Greene, Sullivan, Unicoi and Washington counties. Please clarify the reason why there is now a new service area.

Despite the 2007 application's use of the word "primary service area", the metrics in CN0701-010 clearly demonstrate that the ten listed Tennessee counties included its secondary as well as its primary service areas.

Its Projected Data Chart showed 690 total scans from all areas, in Year One. On page 3 of the supplemental responses dated January 26, 2007, the applicant showed the ten Tennessee counties would generate 690 scans. Elsewhere on page 3, the applicant stated that it would experience between 620 and 759 scans annually. The ten Tennessee county-level projections on that page therefore were 91% to 100% of the project's entire utilization (690 divided by 690 and by 759 scans = 100% and 91%, respectively). The inescapable conclusion is that those ten counties were that applicant's primary plus secondary Tennessee service area.

To make an apple-to-apples comparison of the current Molecular application to the 2007 application, please consider the new information below in Table Five (Supplemental). The table shows Molecular's CY2012 primary plus secondary Tennessee service area counties, which generate 92.9% of its patients. It states that this will remain Molecular's service area at its proposed new location. The Tennessee counties that Molecular now serves, and will continue to serve, are seven of the ten counties projected in 2007. Those seven counties contain 82% of the ten-county area population. That is substantial conformity to the original projection.

One must also consider that, except for hospice or home health projects, a CON holder is approved not for a service area, but rather for a service, and a site. There is a reasonable expectation that the projected service area will be served; but 100% conformity is not required, or feasible. Substantial conformity can, and should, be achieved as a matter of good faith. Molecular has done that, and will continue to do that when relocated.

Page Seven
April 24, 2013

| Table Five (Supplemental): Projected (2007) and Actual (2012) Primary & Secondary Tennessee Counties Molecular Imaging Alliance ODC, Gray, Tennessee | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|------------------------------------------------------|
| All Tennessee Service Area Counties Projected In Approved CN0701-10 | CY2012 Percent of Total ODC Patients from County | CY2013 TDH Projected Population of County |
| 1. Carter | 17.8% | 60,119 |
| 2. Greene | 7.8% | 68,390 |
| 3. Hawkins | 0.7% | 60,131 |
| 4. Johnson | 3.1% | 18,881 |
| 5. Sullivan | 6.0% | 154,387 |
| 6. Unicoi | 8.1% | 17,903 |
| 7. Washington | 49.4% | 120,136 |
| Subtotal | 92.9% | 499,947 (82.3%) |
| 8. Cocke | 0 | 37,001 |
| 9. Hamblen | <0.1% | 63,947 |
| 10. Hancock | 0 | 6,832 |
| Subtotal | 0% | 107,780 (17.7%) |
| Total, Ten Counties | c. 93% | 607,727 (100%) |

Sources: CN0701-10; Molecular Imaging Alliance's CY2012 Patient Origin Data; TDH population projections, Feb. 2008 series.

9. Section C, Need, Item 6

a. The applicant is projecting a slower annual increase of 10% annually at the new proposed location over 17% experienced at the current location. Since this proposed location is closer to referral sources, why is the applicant projecting a slower rate of annual utilization?

This was done simply to be conservative. A 17% annual increase for so many years would be difficult to achieve. The applicant did not want to overestimate the impact of moving to Johnson City.

b. When does the applicant expect to reach optimal capacity for PET (1600 procedures) per year as noted in the State Health Plan.

If a continuous 10% compound annual growth rate is maintained, the ODC would perform 1575 scans annually in its eighth year of operation in Johnson City (CY2021).

Page Eight
April 24, 2013

KE April 24, 2013
2:02 pm

c. The applicant states the equipment leasing company intends to sell Molecular Imaging Alliance's second cardiac PET unit. A similar application, Wellmont Cardiology Services, CN1304-013 was filed this month that intends to use the 2nd PET machine of the applicant and offer Cardiac PET Services with a similar service area. How many cardiac PET cases does the applicant expect to be shifted from Molecular Imaging Alliance PET to the proposed Wellmont Cardiology Services cardiac PET?

Clarification: Both PET units at Gray belong to the equipment leasing company, not to Molecular Imaging Alliance.

Molecular Imaging Alliance and Wellmont Cardiology Services have worked together on this plan to "subdivide" Gray's ODC. Neither sees the other's service as overlapping and competitive within the near future. WCS does not now send its patients to Gray; all its utilization will come from converting its own patients' SPECT tests to cardiac PET tests, or doing follow-up procedures after unsatisfactory SPECT results. WCS and Molecular have different physician referral sources, although those physicians are working in the same general service area. So Molecular is not expecting to lose any utilization to WCS.

10. Section C. Economic Feasibility Item 1 (Project Cost Chart)

The use of the Pro Rata Building Value Method is noted in calculating facility cost. The applicant used the recent sale price of \$2,771,044 in the calculation. Please provide documentation of the property sale to document the fair market value.

Attached following this page is the draft sales agreement currently being negotiated for the sale of the building. The building value in the CON is the asking price of the seller. A somewhat lower price might be agreed upon; but for now the owner's offer of sale reasonably establishes the building's current market value. The seller is one of the area's most experienced commercial developers, is interested in selling his building, and has offered it at a price reflecting local market information.

Page Nine
April 24, 2013

11. Section C, Economic Feasibility, Item 4.

Note: The applicant is attaching after this page an updated supplemental Historical Data Chart and notes, pages 37R-38R, amended after further discussions with Soteria Imaging, the ODC's previous owner, about how its 2010-2012 records should be transferred to the HSDA format. Responses below take that into account.

a. Please clarify the reason why there are management fees in the Historical Data Chart but not on the Projected Data Chart.

The ODC was owned in those years by Soteria Imaging, who booked those fees to the ODC under that category, presumably for supporting corporate overhead of the parent company. The ODC is now wholly owned by Mr. Robert Gregory, an individual who is not retaining a management company but is rather managing it himself.

b. Why are professional fees in the amount of \$161,592 in 2014 and \$177,792 in 2015 included on the Projected Data chart listed as "other expenses"?

Those professional fees will be paid to independent physicians for supervising and interpreting the scans. They will contract to do that but that does not make them employees; so the expense is not a physician salary or wage that should be put into line D2.

c. (1) On the Historical Data Chart, please clarify the overall reason "Other expenses" listed on Line D.9 increased from \$321,367 in 2010 to \$1,253,864 in 2012. (2) In addition, why are there twenty-five "other expenses" listed on the Historic Data Chart and only ten listed as "other expenses" on the Projected Data chart?

(1) The large additions in CY2011 and CY2012 for "fixed equipment lease" appear to explain Soteria's large increase in total Other Expenses.

Soteria tells the current owner of the ODC that after 2010, Soteria transferred ownership of the cardiac PET systems from the ODC itself (LifeScan Tennessee) to the Soteria leasing company (LifeScan Leasing). The CY2011-2012 entries reflect the new equipment lease cost to LifeScan Tennessee after CY2010.

Page Ten
April 24, 2013

(2) The data in the Historic Data Chart were entered into the HSDA format from Soteria Imaging's internal income and expense statements. "Other Expense" itemized categories are expenses reported by Soteria that do not fit into any other lines of the HSDA chart format. Soteria elected to book those expenses into a large number of separate categories.

The current owner's Projected Data Chart has fewer "Other Expense" categories for two reasons. First, the current owner bundles ODC expenses into fewer itemized categories of expense. For example, this owner bundles into its "General Office" category the office expenses Soteria itemized separately as postage, shipping, subscriptions, laundry, waste disposal, etc. Second, the applicant does not intend to incur some of the expenses Soteria had, such as auto expenses, common area maintenance costs, continuing education, service contracts on the system, travel, etc.

d. Please explain the fluctuation on the Historical Data Chart on page 39 (Notes to other Expenses) of the line item listed as "Contracted Labor" for the years 2010 (\$53,364), 2011 (\$180.00) and 2012 (\$-27,893).

According to Soteria, the previous owner, those three entries reflected nurses assigned to the ODC by Mountain States Health Alliance/Johnson City Medical Center when they were minority owners in the LLC. In 2010 the nurses were paid by the ODC as contract labor. In 2011 that cost was almost entirely paid by Mountain States rather than the ODC. In 2012 there was an adjustment of the previously recorded ODC's expenses in 2010 through 2012, in the amount shown.

e. Please indicate if the cost of radiopharmaceuticals were factored in the Projected Data Chart.

They are included in the supplies line, at a cost of \$190 for the radiopharmaceutical for every patient, and a cost of \$223 for the pharmacologic stress agent that is administered to many patients.

KE April 24, 2013
2:02 pmPage Eleven
April 24, 2013

f. If the applicant had a cyclotron on-site what would be the impact on Project Costs and the Projected Data Chart.

This is not a calculation that the applicant has made, or needs to make. Cyclotrons and radiopharmacies are so expensive to establish and to staff that the applicant's acquisition and operation of one just for this project would make the project financially unfeasible. There is not a need for an additional cyclotron in the service area so long as this one performs so efficiently and dependably for area providers with whom it has long-established relationships.

12. Section C, Economic Feasibility, Item 10.

The income statement of the applicant is noted. Please provide a Balance Sheet from the most recent reporting period.

Our copies of the filing indicate that it was included as the first page in Attachment C--Economic Feasibility--10, immediately preceding the LifeScan income statement. Please note that this is the CY2012 balance sheet provided by Soteria, the prior ODC owner until late December 2012. The applicant cannot be responsible for it.

13. Section C, Orderly Development, Item 3.

The proposed salary ranges for the Registered Nurse and Nuclear Medicine Tech appears to be below the mean TDOL surveyed salaries for the proposed service area. Please clarify.

Attached following this page are revised pages 49R and 50R, with more detailed and current data, and with the error in the RN salary range corrected.

Thank you for your assistance. We hope this provides the information needed to accept the application into the next review cycle. If more is needed please FAX or telephone me so that we can respond in time to be deemed complete.

Respectfully,

John Wellborn
Consultant

I /
KQ April 24, 2013
2:02 pmAFFIDAVIT

2013 APR 24 PM 4 13

STATE OF TENNESSEE

COUNTY OF DAVIDSON

NAME OF FACILITY:

Molecular Imaging Alliance

I, JOHN WELLBORN, after first being duly sworn, state under oath that I am the lawful agent of the applicant named in this Certificate of Need application or the lawful agent thereof, that I have reviewed all of the supplemental information submitted herewith, and that it is true, accurate, and complete to the best of my knowledge.

John Wellborn
Signature/Title

Sworn to and subscribed before me, a Notary Public, this the 24 day of APRIL, 2013,
witness my hand at office in the County of DAVIDSON, State of Tennessee.

Tiffany B. Poulos
NOTARY PUBLIC

My commission expires 1-11 - 2017.

HF-0043

Revised 7/02



LETTER OF INTENT -- HEALTH SERVICES & DEVELOPMENT AGENCY

The Publication of Intent is to be published in the John City Press, which is a newspaper of general circulation in Washington County, Tennessee, on or before Wednesday April 10, 2013, for one day.

2013 APR 8 PM 8:11

This is to provide official notice to the Health Services and Development Agency and all interested parties, in accordance with T.C.A. Sections 68-11-1601 et seq., and the Rules of the Health Services and Development Agency, that Molecular Imaging Alliance (an Outpatient Diagnostic Center with cardiac PET scanning), owned and managed by LifeScan Tennessee, LLC (a limited liability company), intends to file an application for a Certificate of Need to change its location within Washington County, from 830 Suncrest Drive, Suite 1, Gray, TN 37615 to the "701 Building" at 701 State of Franklin Road, Suite 1, Johnson City, TN 36404, at a capital cost estimated at \$500,000. The applicant is licensed by the Board for Licensing Health Care Facilities, Tennessee Department of Health, as an Outpatient Diagnostic Center. The project is a change of site for an existing facility and service. It will not add or discontinue any significant health service at the ODC; it does not include any type of major medical equipment other than an existing cardiac PET system; it does not affect any inpatient bed complements.

The anticipated date of filing the application is on or before April 15, 2013. The contact person for the project is John Wellborn, who may be reached at Development Support Group, 4219 Hillsboro Road, Suite 203, Nashville, TN 37215; (615) 665-2022.

John L. Wellborn 4-8-13

(Signature)

(Date)

jwdsg@comcast.net

(E-mail Address)

**CERTIFICATE OF NEED
REVIEWED BY THE DEPARTMENT OF HEALTH
DIVISION OF POLICY, PLANNING AND ASSESSMENT
OFFICE OF HEALTH STATISTICS
615-741-1954**

DATE: July 1, 2013

APPLICANT: Molecular Imaging Alliance
701 Building, 701 State of Franklin Road, Suite 1
Johnson City, Tennessee 37076

CON#: CN1304-014

COST: \$500,000

In accordance with Section 68-11-1608(a) of the Tennessee Health Services and Planning Act of 2002, the Tennessee Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics reviewed this certificate of need application for financial impact, TennCare participation, compliance with *Tennessee's Health: Guidelines for Growth, 2011 Edition*, and verified certain data. Additional clarification or comment relative to the application is provided, as applicable, under the heading "Note to Agency Members."

SUMMARY:

The applicant, Molecular Imaging Alliance, an outpatient diagnostic center (ODC) with cardiac PET scanning, owned and managed by LifeScan Tennessee, LLC, is filing this Certificate of Need to change its location within Washington County, from 830 Suncrest Drive, Suite 1, in Gray, Tennessee to the "701 Building" at 701 State of Franklin Road, Suite 1, Johnson City, Tennessee. The Letter of Intent, dated April 8, 2013 estimates the capital cost of the project will be \$500,000, however, the detailed estimate contained in the Project Costs Chart on page 33 of the CON application totals \$495,339 (including the CON Filing Fee). The project is a change of site for an existing licensed ODC with a cardiac PET system. The project, as the applicant notes, does not involve the addition of services, the addition of major medical equipment or any inpatient bed complements.

GENERAL CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all of the general criteria for Certificate of Need as set forth in the document *Tennessee's Health: Guidelines for Growth, 2011 Edition*.

NEED:

Note to Agency Members: The Tennessee Department of Health, Division of Health Licensure and Regulation-Office of Health Care Facilities' Rules and Regulations does not require outpatient diagnostic centers to have a defined service area but does identify the specific location of the outpatient diagnostic center.

The Tennessee Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics verified the applicant's service area, based on the applicant's utilization, as set forth, on pages 5-6 of the *Joint Annual Report of Outpatient Diagnostic Centers 2011*. The Joint Annual Report submitted by LifeScan (d/b/a Molecular Imaging Alliance) documents it served residents of the following counties: Carter, Greene, Hamblen, Hawkins, Johnson, Loudon, Sullivan, Unicoi and Washington.

The service area population, as defined by the agency's county utilization, reported in the *Joint Annual Report of Outpatient Diagnostic Centers 2011* is contained in the following table:

Service Area Total Population Projections for 2013 and 2017

| County | 2013 Population | 2017 Population | % Increase/ (Decrease) |
|---------------|--------------------|--------------------|------------------------------|
| Carter | 60,119 | 60,700 | 1.0% |
| Greene | 68,390 | 69,636 | 1.8% |
| Hamblen | 63,947 | 65,455 | 2.4% |
| Hawkins | 60,131 | 61,865 | 2.9% |
| Johnson | 18,881 | 19,254 | 2.0% |
| Loudon | 47,717 | 49,158 | 3.0% |
| Sullivan | 154,387 | 154,946 | 0.4% |
| Unicoi | 17,903 | 17,982 | 0.4% |
| Washington | 120,136 | 123,276 | 2.6% |
| Totals | 611,611 | 622,272 | 1.6% |

Source: *Tennessee Population Projections 2000-2020, February 2008 Revision*, Tennessee Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics

The need for this project is described can be found in Section B. II, on page 7 of the CON application. The applicant believes the proposed move to a new site in Johnson City, also within Washington County, will be more convenient to patients referred from Karing Hearts Cardiology, PLLC which is also in Johnson City. Currently, Karing Hearts is the largest single referral source to Molecular Imaging Alliance and this fact coupled with the new site being near to Johnson City Medical Center makes the proposed relocation of the ODC and one of the PET scanners it currently leases from LifeScan Leasing of Tennessee, LLC a desirable alternative to its present site in Gray, Tennessee.

The applicant notes on page 7 of the CON application, Wellmont Cardiology Services, Inc., a not-for-profit corporation and physician group practice, whose sole owner is Wellmont Health System, is filing a simultaneous companion CON application (CN1304-013). This CON application involves the establishment of a new ODC and the purchase and relocation of the other PET scanner currently leased from LifeScan Leasing of Tennessee, LLC, currently located in Gray (Washington County), Tennessee, which is the site of Molecular Imaging Alliance ODC, to a new location in Kingsport (Sullivan County), Tennessee.

TENNCARE/MEDICARE ACCESS:

The Tennessee Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics verified the applicant, Molecular Imaging Alliance, participates in both Medicare and TennCare. The applicant's Medicare/Medicaid (TennCare) provider number is 3790000. The *Joint Annual Report of Outpatient Diagnostic Centers 2011* in Schedule C-Facilities and Services on page 3 states the applicant participates in both programs as of 02/24/2012. The Division of Health Licensure and Regulation, Office of Health Care Facilities verified on 05/17/2013 that Molecular Imaging Alliance is certified as a Medicare and TennCare provider.

The CON application in Section A. 13, on page 4 states the applicant contracts with the following TennCare Managed Care Organizations (MCOs): BlueCare, United Community Healthcare Plan and TennCare Select. The applicant also reports it contracts with Virginia Medicaid.

ECONOMIC FACTORS/FINANCIAL FEASIBILITY:

The Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics have reviewed the Project Costs Chart, the Historic Data Chart, and the Projected Data Chart to determine they are mathematically accurate and the projections are based on the applicant's

anticipated level of utilization. The location of these charts may be found in the following specific locations in the Certificate of Need Application or the Supplemental material:

Project Costs Chart: The Project Costs Chart is located on page 30, Section C (II) 1 of the CON application. The project has a total estimated cost of \$495,339.

Historical Data Chart: The revised Historical Data Chart is located on pages 37R-38R, in response to Question 11 in Supplemental Section I, dated April 24, 2013. The applicant, being the new owner of Molecular Imaging Alliance, has received the assistance of the previous owner, Soteria Imaging, to complete the Historical Data Chart, as noted on page 9 of Supplemental I. The applicant reports it performed 342, 514 and 668 procedures in 2010, 2011 and 2012 respectively with net operating income of (\$587,607), (\$604,552) and (\$735,266) in each year.

Projected Data Chart: The revised Projected Data Chart is located on page 39R of the additional Supplemental #1 application. The applicant projects 808 pet scans in year one and 889 pet scans in year two with a net operating income of \$202,597 and \$208,410 each year, respectively. The net operating income in the original Projected Data Chart on page 39 of the CON application in year one was \$57,019 and was \$48,236 in year two. A major factor in the positive financial projections for this project appears to be the revised estimate for medical supplies e.g. radiopharmaceuticals which went from \$472,818 to \$327,240 in year one of the project and from \$520,219 to \$360,045 in year two of the project a reduction of 31% in both years, assuming no increase in these costs over the next two project years. The revised net operating income increased by \$145,578 in year one and by \$160,174 in year two of the project with reduced medical supply e.g. radiopharmaceutical costs accounting for 100% of the projected increase.

The applicant's average gross charge per procedure in year one of the project, as set forth on page 41R of Supplemental #1 Additional Information, will be \$3,133 and will be \$2,977 in year two of the project. The average net operating income per procedure is estimated to be \$284 in year one and \$265 in year two as stated on page 41R of Supplemental #1 Additional Information. According to the calculations performed by the Tennessee Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics, the net operating income per procedure would be \$250.74 in year one of the project and \$234.43 in year two of the project based upon the assumptions set forth in the revised Projected Data Chart. If Table Nine on page 41R were correct the projected net operating income per procedure would be \$284 in year one and would be \$265 in year two. The net operating income less capital expenditures would then be \$229,472 in year one and in year two would be \$235,585.

The applicant estimates its Medicare gross revenue in year one will total \$1,392,405 or 55% of gross total revenue and TennCare/Medicaid gross revenue will total \$101,266 or 4% of gross total revenue. It is noted by the Tennessee Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics, that on page 6 the *Joint Annual Report of Outpatient Diagnostic Centers 2011* (while owned by Soteria) Medicare gross/net revenue was \$194,907 or 31% of gross/net revenue while TennCare/Medicaid gross/net revenue was \$24,277 or 4% of total gross/net revenue. The applicant's projected 24% increase in Medicare gross/net revenue may be due to its proximity to Karing Hearts Cardiology, PLLC its single largest referral source, also located in Johnson City. However, the applicant did not address where Karing Hearts Cardiology, PLLC currently sends those patients for PET imaging studies and the potential impact its increased Medicare services/revenues would have on the other providers currently serving Karing Hearts Cardiology, PLLC's Medicare caseload and its private pay/commercial caseload.

The applicant did not address the potential impact of the Affordable Care Act upon PET imaging services given the planned reductions in Medicare funding to support the expansion of other services such as Medicaid. The applicant did note it reduced its projected caseload growth from approximately 17% to approximately 10% saying it was a conservative projection and would not

overestimate the impact of moving to Johnson City as noted on page 7 of Supplemental #1 in response to Question 9 by the HSDA staff analyst.

This CON application involves only the relocation and downsizing of a currently licensed outpatient diagnostic center located in Gray (Washington County), Tennessee to another smaller site in Johnson City (also in Washington County) nearer its single largest referral source Karing Hearts Cardiology, PLLC. The relocation of the outpatient diagnostic center will result in higher utilization of PET scanning services, if the assumptions of the applicant are valid. The CON project will not add new services or new PET imaging devices at this time based on the representations made by the applicant.

CONTRIBUTION TO THE ORDERLY DEVELOPMENT OF HEALTHCARE:

Molecular Imaging Alliance states, on page 48 of the CON application, it intends to seek a formal transfer agreement with Johnson City Medical Center (part of Mountain States Health Alliance), which is, as noted, less than a mile from the proposed outpatient diagnostic center.

The project as written is a simple relocation of an existing outpatient diagnostic center that is the only current provider of PET imaging services in the geographic area. No additional PET units will be added to this area.

Wellmont Cardiology Services, Inc., a not-for-profit corporation and physician group practice, whose sole owner is Wellmont Health System, is filing a simultaneous companion CON application (CN1304-013). This companion CON application will not duplicate Molecular Imaging Alliance's existing services but will provide improved geographic accessibility resulting in increased utilization of PET scanning services to residents in each of the major population centers in the area based on both applicants' representations.

The current staffing pattern for Molecular Imaging Alliance consists of one R.N. and one technician/site director. In the second year of the project a technician will be added to the staffing complement.

The Tennessee Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics with the assistance of the Division of Health Licensure and Regulation-Office of Health Care Facilities verified that the applicant is currently licensed (licensed as 00000042). The last licensure survey took place on 10/20/2009 with no deficiencies being cited by the East Tennessee Regional Office. The applicant did provide a copy of its latest license. The expiration date of its license is 11/05/2013.

The facility is accredited by the Intersocietal Commission on Accreditation with an expiration date of 8/31/2015, as posted on the Health Care Facilities website as of 6/25/2013. The applicant did not provide a copy of its latest accreditation survey or its latest accreditation certificate in the CON application.

SPECIFIC CRITERIA FOR CERTIFICATE OF NEED

The applicant responded to all relevant specific criteria for Certificate of Need as set forth in the document *Tennessee's Health: Guidelines for Growth, 2011 Edition*.

The Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics will provide responses to Specific Criteria for Certificate of Need that address utilization, need, bed data and other information maintained by the Department of Health. The narrative responses of the applicant will not be repeated but can be found in the Certificate of Need Application and such Supplemental material as provided by the applicant to the Health Services and Development Agency.

**CONSTRUCTION, RENOVATION, EXPANSION, AND REPLACEMENT
OF
HEALTH CARE INSTITUTIONS**

1. Any project that includes the addition of beds, services, or medical equipment will be reviewed under the standards for those specific activities.

The Tennessee Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics has determined that this CON application does not include the addition of beds, services, or medical equipment. Therefore, the specific criterion does not apply to this project.

2. For relocation or replacement of an existing licensed health care institution:

- a. The applicant should provide plans which include costs for both renovation and relocation, demonstrating the strengths and weaknesses of each alternative.

The Tennessee Department of Health, Division of Policy, Planning and Assessment-Office of Health Statistics reviewed this application and notes the applicant does not own the space currently occupied in Gray, Tennessee. The applicant believes a smaller more efficient office/imaging site located near its major referral source would be in its best interest.

- b. The applicant should demonstrate that there is an acceptable existing or projected future demand for the proposed project.

The applicant's response can be found on page 19 of the CON application.

3. For renovation or expansions of an existing licensed health care institution:

- a. The applicant should demonstrate that there is an acceptable existing demand for the proposed project.
- b. The applicant should demonstrate that the existing physical plant's condition warrants major renovation or expansion.

The Tennessee Department of Health, Division of Health Statistics-Office of Health Statistics has determined that this project does not involve renovation to an existing facility and it does not involve the expansion of an existing facility. Therefore, the specific criterion does not apply to this project.